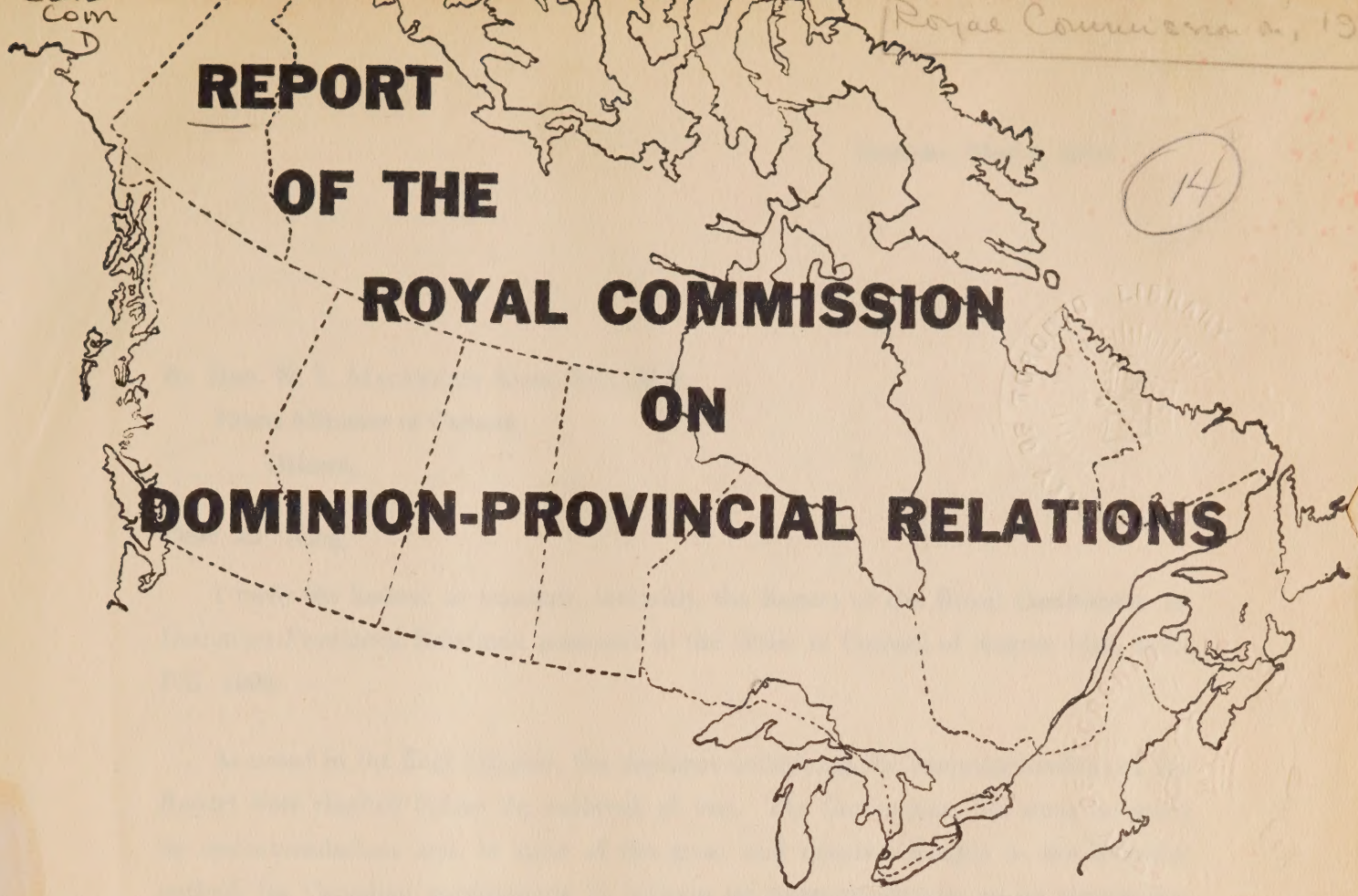
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REPORT OF THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BOOK I

CANADA: 1867-1939

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OTTAWA, May 3, 1940.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
Ottawa.

Dear Mr. King,

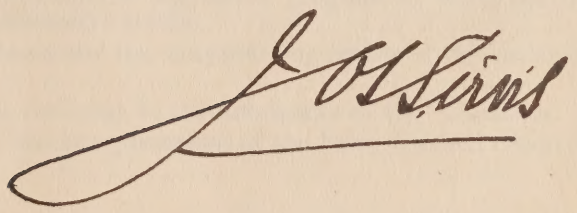
I have the honour to transmit, herewith, the Report of the Royal Commission on Dominion-Provincial Relations, pursuant to the Order in Council of August 14th, 1937, P.C. 1908.

As noted in the final Chapter, the decisions underlying the recommendations of the Report were reached before the outbreak of war. The Commission has since reviewed its recommendations and, in spite of the great and relative changes in the financial outlook for Canadian governments, it believes its recommendations to be appropriate to meet the new strains and emergencies of war conditions.

I have the honour to be,

Sir,

Your obedient servant,



CHAIRMAN.

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Note.—The material contained in the research studies which have been published as Appendices (and which are listed on page 261) has been extensively used by the Commission in the preparation of Book I. It has not been thought necessary, however, to give exact citations or references to these studies except on occasion of actual quotation or long paraphrasing.

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TERMS OF REFERENCE

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by The Deputy of His Excellency the Governor General on the 14th August, 1937.

P.C. 1908

The Committee of the Privy Council have had before them a report, dated August 5th, 1937, from the Right Honourable W. L. Mackenzie King, the Prime Minister, submitting,—with the concurrence of the Minister of Finance and the Minister of Justice:—

1. That, as a result of economic and social developments since 1867, the Dominion and the provincial governments have found it necessary in the public interest to accept responsibilities of a character, and to extend governmental services to a degree, not foreseen at the time of Confederation;
2. That the discharge of these responsibilities involves expenditures of such a magnitude as to demand not only the most efficient administrative organization on the part of all governments but also the wisest possible division of powers and functions between governments. That particularly is this the case if the burden of public expenditures is to be kept to a minimum, and if the revenue-raising powers of the various governing bodies are to possess the adequacy and the elasticity required to meet the respective demands upon them;
3. That governmental expenditures are increased by overlapping and duplication of services as between the Dominion and provincial governments in certain fields of activity. That in other respects the public interest may be adversely affected by the lack of a clear delimitation of governmental powers and responsibilities;
4. That representations have been made on behalf of several provincial governments and by various public organizations that the revenue sources available to provincial governments are not in general adequate to enable them to discharge their constitutional responsibilities, including the cost of unemployment relief and other social services and the payment of fixed charges on their outstanding debt; that, consequently, if they are to discharge their responsibilities, either new revenue sources must be allotted to them or their constitutional responsibilities and governmental burdens must be reduced or adjustment must be made by both methods;
5. That representations have been made by provincial governments that municipal governments which have been created by, and derive their powers and responsibilities from, the provinces, are confronted with similar problems; that, in particular, necessary municipal expenditures have placed an undue burden on real estate and are thereby retarding economic recovery; also that the relations between provinces and municipalities are an essential part of the problem of provincial finances;
6. That, finally, it has been represented that unless appropriate action is taken the set-up of governmental powers and responsibilities devised at the time of Confederation will not be adequate to meet the economic and social changes and the shifts in economic power which are in progress without subjecting Canada's governmental structure to undue strains and stresses.

The Prime Minister, therefore, with the concurrence of the Minister of Finance and the Minister of Justice, recommends:—

1. That it is expedient to provide for a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years;

2. That for this purpose the following be appointed Commissioners under Part I of the Inquiries Act:—

   The Honourable Newton W. Rowell, LL.D., Chief Justice of Ontario;

   The Honourable Thibaudeau Rinfret, Justice of the Supreme Court of Canada;

   John W. Dafoe, Esquire, LL.D., of the City of Winnipeg, Man.;

   Robert Alexander MacKay, Esquire, Ph.D., Professor of Government, Dalhousie University, Halifax, N.S.; and

   Henry Forbes Angus, Esquire, M.A., B.C.L., Professor of Economics, University of British Columbia, Vancouver, B.C.

3. That, without limiting the general scope of their inquiry, the Commissioners be instructed in particular:—

   (*a*) to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments, the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;

   (*b*) to investigate the character and amount of taxes collected from the people of Canada, to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised;

   (*c*) to examine public expenditures and public debts in general, in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial governments to discharge their governmental responsibilities within the framework of the present allocation of public functions and powers, or on the basis of some form of reallocation thereof;

   (*d*) to investigate Dominion subsidies and grants to provincial governments.

4. That the Commissioners be instructed to consider and report upon the facts disclosed by their investigations; and to express what in their opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada.

The Prime Minister, with the concurrence of the Minister of Finance and the Minister of Justice, further recommends that the Honourable Newton W. Rowell, LL.D., Chief Justice of Ontario, be Chairman of the said Commission.

The Committee concur in the foregoing recommendations and submit the same for approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 18th November, 1937.

P.C. 2880

The Committee of the Privy Council have had before them a Report, dated 18th November, 1937, from the Right Honourable W. L. Mackenzie King, the Prime Minister, stating that the Honourable Thibaudeau Rinfret, Justice of the Supreme Court of Canada, has, owing to ill health, tendered his resignation as a Member of the Commission on Dominion-Provincial Relations, appointed by Order in Council of 14th August, 1937—P.C. 1908.

The Prime Minister, with the concurrence of the Minister of Finance and the Minister of Justice, recommends:—

1. That the resignation of the Honourable Mr. Justice Rinfret be accepted; and
2. That Joseph Sirois, Esquire, LL.D., of the City of Quebec, Notary Public, Professor of Constitutional and Administrative Law at Laval University, be appointed a Member of the said Commission, in the place of the Honourable Mr. Justice Rinfret.

The Committee concur in the foregoing recommendation and submit the same for approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by The Deputy of His Excellency the Governor General on the 22nd November, 1938.

P.C. 2946

The Committee of the Privy Council, on the recommendation of the Right Honourable W. L. Mackenzie King, the Prime Minister, advise that Joseph Sirois, Esquire, LL.D., of the City of Quebec, a Member of the Commission on Dominion-Provincial Relations established by Order in Council P.C. 1908 of the 14th August, 1937, be appointed Chairman of the said Commission vice the Honourable Newton Wesley Rowell, LL.D. resigned.

E. J. LEMAIRE,
Clerk of the Privy Council.

A. SKELTON, Esq.,
Secretary,
Commission on Dominion-Provincial Relations.

HISTORY OF THE COMMISSION

The Commission was appointed by Order in Council (P.C. 1908) dated 14th August, 1937, printed immediately preceding this section.

On August 31, 1937 Mr. Alex Skelton, chief of the research department of the Bank of Canada, was appointed by Order in Council (P.C. 2113) as Secretary of the Commission and Director of Research. Subsequently Miss M. K. Rowland was appointed as Assistant to the Secretary to aid in administration. Mr. Adjutor Savard was appointed French Secretary with particular responsibility for correspondence and relations with French-speaking Canadians. Mr. Savard acted as Secretary during the hearings at several provincial capitals and, in the later stages of the Commission's work, became responsible for the important task of supervising translation of the Report, appendices and other published studies. Mr. Wilfrid Eggleston was appointed Assistant to the Secretary with particular responsibility for supervision of reporting and travelling arrangements. After the public hearings Mr. Eggleston was transferred to the research staff of the Commission. Mr. R. M. Fowler of Toronto was appointed Registrar and Legal Secretary to the Chairman, Chief Justice Rowell, and after the retirement of the Chief Justice Mr. Fowler continued on the Commission's secretariat. Mr. Louis S. St. Laurent, K.C., of Quebec City and Mr. James McGregor Stewart, K.C., of Halifax, were appointed Counsel to assist the Commission in its public hearings, but except during certain sittings in Ottawa only one counsel was present at each hearing of the Commission.

Terms of Reference.—The Order in Council appointing the Commission imposed upon it a task of great complexity and magnitude. But wide and comprehensive as the terms of reference were, they were primarily concerned with one great problem, viz., the relations between the Dominion and the provinces. The Commission accordingly directed its inquiry strictly to this main problem. Many representations made to the Commission were concerned with other matters and, therefore, fell outside the scope of the inquiry.

The recital in the terms of reference set out certain conditions on which presumably the Commission was expected to report: the enlarged responsibilities of government due to economic and social developments; the need for "the widest possible division of powers and functions between governments"; the allegation that expenditures were increased by overlapping and duplication of services as between the Dominion and the provinces; the complaint of the provinces that their revenue sources were inadequate to enable them to fulfil their constitutional responsibilities; the representations of the provinces that their municipalities were confronted with similar financial difficulties and, particularly, that conditions were such as to place an undue burden on real estate; and finally, the representation that unless appropriate action were taken, the governmental structure would be subject to undue stresses and strains in meeting the economic and social changes and the shifts in economic power which are in progress.

The operative clauses of the Order in Council more precisely instructed the Commission to make "a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years." Without limiting the broad scope of such an inquiry the Commission was instructed in particular:—

(*a*) *"to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments,* the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;

(*b*) *to investigate the character and amount of taxes collected from the people of Canada,* to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to *determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised;*

(*c*) *to examine public expenditures and public debts in general,* in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial

governments to discharge their governmental responsibilities within the framework of the present allocation of public functions and powers, or on the basis of some form of reallocation thereof;

(*d*) to investigate Dominion subsidies and grants to provincial governments."

The Order in Council appointing the Commission clearly indicated that its task was two-fold: the Commissioners were instructed to consider and report upon the facts disclosed by their investigations; and "*to express what in their opinion,* subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, *will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada.*" In short, the Commission was intended to be both a fact-finding body, and a body to make recommendations.*

Research Program.—In view of the many highly technical problems posed by the terms of reference the Commission decided in its first private meetings in September 1937, that it was impossible to fulfil its obligations by public hearings alone and that an extensive program of independent research should be carried on contemporaneously with the public hearings. This decision to engage research assistants was authorized by Order in Council (P.C. 2281) dated 15th September, 1937.

A comprehensive research program was accordingly organized and placed under the direction of Mr. Skelton, with Mr. J. J. Deutsch as Assistant Director. Broadly speaking, the program was grouped about three general heads: economics, constitutional matters, and public accounts.

The economic inquiry included such subjects of research as the economic background of Dominion-provincial relations, the national income, the financial history of Canadian governments, the economic effects of the Canadian taxation system, the role of municipalities and their relations to provincial governments, transportation, developments in Canada of services for social welfare, labour legislation. The following participated in research in economic matters:—

Stewart Bates, formerly Secretary of the Economic Council of Nova Scotia; Prof. George Britnell, Dept. of Political Science, University of Saskatchewan; J. J. Deutsch, Research Department, Bank of Canada; H. Carl Goldenberg, Economist, Canadian Federation of Mayors and Municipalities, Montreal; Prof. A. E. Grauer, Director, Dept. of Social Science, University of Toronto; Prof. Paul-Henri Guimont, Dept. of Social Science, Laval University; R. A. C. Henry, formerly Deputy Minister of Railways and Canals; Joseph Howes, Assistant Director, Citizens' Research Institute of Canada, Toronto; Lawrence B. Jack, M.A.; Prof. F. A. Knox, Dept. of Political and Economic Science, Queen's University; C. T. Kraft, Ph.D.; Henry Laureys, formerly Director. Ecole des Hautes Etudes Commerciales, Montreal: Prof. Paul LeBel, Ecole Supérieure du Commerce, Quebec; J. C. Lessard, Economics Branch, Canadian National Railways, Montreal; Prof. W. A. Mackintosh, Head of Dept. of Political and Economic Science, Queen's University; Prof. Esdras Minville, Director, Ecole des Hautes Etudes Commerciales, Montreal; Prof. D. C. MacGregor, Dept. of Political Science, University of Toronto; Prof. Robert McQueen, Head of Dept. of Political Economy, University of Manitoba; Prof. J. L. McDougall, Dept. of Political and Economic Science, Queen's University; Stanley Nixon, specialist in public finance, Montreal; J. B. Rutherford, Dominion Bureau of Statistics; S. A. Saunders, Ph.D., author of several studies on the economic problems of the Maritime Provinces; J. C. Thompson, formerly Provincial Auditor of Alberta; Prof. François Vézina, Ecole des Hautes Etudes Commerciales, Montreal; Prof. W. J. Waines, Dept. of Political Economy, University of Manitoba; J. A. Walker, economist, Toronto; W. H. Wynne, Ph.D., formerly engaged by the Citizens' Research Institute in a special inquiry on taxation.

Research in constitutional and historical matters included studies in the legal interpretation of the British North America Act, certain aspects of other federal systems, the historical background of Confederation, the growth of governmental functions since federation, etc. The following participated in research in constitutional and legal matters:—

W. A. I. Anglin, K.C., Saint John, N.B.; Prof. D. G. Creighton, Dept. of History, University of Toronto; Prof. J. A. Corry, Dept. of Political and Economic Science, Queen's University; Harold E. Crowle, LL.B., Calgary, Alta.; Brooke Claxton, Montreal; L. M. Gouin, K.C., Montreal; Miss Kathleen Kearns, Ottawa; Prof. W. P. M. Kennedy,

* Italics in above paragraphs added.

Head of Dept. of Law, University of Toronto; and Vincent C. MacDonald, Dean of Law, Dalhousie University.

The Commission was fortunate in securing Mr. J. C. Thompson, F.C.A., formerly Provincial Auditor of Alberta, as Director of the Public Accounts Inquiry. Under Mr. Thompson's direction a financial questionnaire was prepared and sent to the treasury department of the Dominion and of each province. In general the Commission received whole-hearted co-operation from these departments, and comprehensive reports on a comparable basis of public finance for each province and the Dominion over the past twenty-five years were compiled. The Commission wishes to emphasize that this is the first occasion on which the statistics of public finance of all the provinces and the Dominion have been compiled on a comparative basis. These statements accompany the Report as Appendix 1.

Certain research studies which the Commission considered to be of permanent value and general interest have been printed as appendices to the Report. Other studies which were of less general interest have been published in mimeographed form. A number of special studies, many of them dealing with constitutional and legal matters, were prepared for the assistance of the Commissioners and not for publication. Copies of these will, however, be filed with the records of the Commission. It must, however, be understood that for facts or opinions stated in these reports, whether these reports are published or unpublished, the authors and not the Commission, assume full responsibility. A list of the printed and mimeographed studies appended to our Report is set out at the end of Book I.

Retirement of Mr. Justice Rinfret.—Unfortunately, before the first public session of the Commission, the Hon. Mr. Justice Rinfret was compelled to resign from the Commission on account of illness. The Commission desires to express its great sense of obligation to Mr. Justice Rinfret for his valuable advice and assistance in organizing the work of the Commission and in aiding in the selection of members of the research staff. His retirement from the Commission was a source of deep regret to his fellow Commissioners. Mr. Justice Rinfret's place on the Commission was taken by Dr. Jos. Sirois of the City of Quebec, Notary and Professor of Constitutional Law in Laval University, Quebec.

Public Hearings.—With regard to the public hearings, it was decided at the organization meetings of the Commission that public hearings should be held at Ottawa and at the provincial capital in each province unless some other city were designated by the province concerned. Public representations were to be limited to Provincial and Dominion Governments and to recognized public organizations, but the Commission reserved discretion to call any individual witness, if it saw fit. If municipalities desired to present submissions to the Commission it was stipulated that they should make arrangements through their provincial governments which would decide whether the municipal representations should be made by the government of the province or by the municipalities themselves. Conditions were laid down as to the form in which briefs were to be prepared and as to the time within which they should be filed. A general announcement in the press concerning the procedure at public hearings was made.

It was decided that before holding any public hearings the Chairman (Chief Justice Rowell), accompanied by the resident Commissioner wherever possible, and by the Secretary, should visit each provincial Premier and explain the general program and methods of procedure planned by the Commission. These visits were made in September and October, 1937, and all provincial Premiers without exception agreed to give to the Commission their full co-operation.

Public hearings were opened at Winnipeg on the 29th November, 1937. Between this date and the 1st December, 1938, hearings were held at all provincial capitals and at Ottawa, as follows:—

Place of Hearing	Dates	No. of Days
Winnipeg	Nov. 29, 1937 — Dec. 8	9
Regina	Dec. 9 — Dec. 17	8
Ottawa	Jan. 17, 1938 — Jan. 31	10
Halifax	Feb. 3 — Feb. 8	4
Charlottetown	Feb. 10 — Feb. 12	3
Ottawa	Feb. 15 — Feb. 16	2
Victoria	Mar. 16 — Mar. 25	8
Edmonton	Mar. 28 — Apr. 2	6
Ottawa*	Apr. 21	1
Toronto	Apr. 25 — May 9	11
Quebec	May 12 — May 16	4
Fredericton	May 18 — May 23	5
Ottawa	May 25 — June 2	7
Ottawa**	Aug. 8	1
Ottawa	Nov. 24 — Dec. 1	6
	Total	85

* Evidence Dr. I. Jennings.
** Evidence Prof. L. F. Giblin.

In the course of its public hearings the Commission recorded over ten thousand mimeographed pages of evidence, and 427 exhibits were filed. The Commission arranged for duplication and distribution of the evidence by its own staff in co-operation with the reporting staff, and by this means made its evidence available to the public at a lower cost than has hitherto prevailed, and succeeded (after supplying all the governments concerned with copies free of charge) in covering the total cost of reporting.

In addition to the briefs prepared by provincial governments, evidence of many departmental officials was taken for the purpose of investigating the alleged existence of overlapping and duplication between the services of the Dominion and provincial governments. One hundred and fifty-four briefs were received from municipal bodies and from public organizations. A list of exhibits indicating all governments and organizations which appeared before us is printed elsewhere.[1] The Commission also called a number of witnesses to deal with special phases of the inquiry. These witnesses include Dr. Heinrich Brüning, formerly Chancellor of Germany; Dr. Ivor Jennings, Reader in Law in the University of London, England; Dr. Gunnar Myrdall, Professor of Political Economy, Stockholm University, Sweden, and member of the Senate of Sweden; Graham Towers, Esq., Governor of the Bank of Canada; Dr. Roswell Magill, Under-Secretary of the United States Treasury; D. W. Bell, Esq., Acting Director, Bureau of the Budget, United States Government; Prof. L. F. Giblin, Professor of Economics, University of Melbourne, formerly of the Australian Grants Commission; and Bryce M. Stewart, Esq., Director of Research, Industrial Relations Counselors, Inc., New York City. Some of these witnesses were heard privately for the purpose of presenting confidential information. The Commission also consulted privately a number of other private individuals and officials.

Although in the preliminary visit made by the Chairman and the Secretary in September and October, 1937, the Premiers of all provinces expressed their willingness to co-operate in the work of the Commission, it was found that full participation by all provincial governments was not forthcoming. The Government of Alberta subsequently declined to appear before the Commission or to participate in its activities. The position of the Government was set forth in a letter from Premier Aberhart to the Chairman in reply to a request for the Government's views on various questions:—

[1] See Book III.

Office of the Premier

Alberta
Edmonton, March 30, 1938.

Dear Sir,

Owing to the fact that the legislature has decided against presenting a brief to the Commission on the grounds already outlined to the Federal Government, we would respectfully suggest to you that it would be inconsistent and contrary to the decree of the legislature to answer the questions you have directed to us.

It is our intention to present a comprehensive brief directly to the Federal Government, a copy of which will be sent to each of the provinces.

Yours truly,

(Sgd.) William Aberhart,
Premier.

Hon. Newton W. Rowell, Chairman,
Royal Commission on Dominion-Provincial Relations,
Edmonton, Alberta.

The Commission also inquired if the Government had any objection to its summoning various officials to appear before it to give evidence on the matter of overlapping, but the Premier objected in view of the resolutions of the Legislature.[2] At the hearings in Edmonton the Edmonton Chamber of Commerce, however, presented a comprehensive survey of the position of the Province within federation, and thereby a serious gap in information was avoided.

The Province of Quebec was represented at the opening session of the hearings in Quebec City by counsel who welcomed the Commission and presented a memorandum setting forth its reasons for not participating. The memorandum declared in part:—

". . . nous devons déclarer que le gouvernement de la province de Québec ne comparaît devant cette Commission, ni en qualité de demandeur, ni en qualité de défendeur; et qu'il n'entend être lié en aucune façon par les conclusions de votre rapport.

Si le gouvernement de Québec a cru devoir se faire représenter à cette séance initiale, c'est qu'il n'a pas voulu manquer de courtoisie envers la Commission; c'est aussi parce que son silence aurait pu être considéré comme un acquiescement au principe qu'a posé le gouvernement féderal, en confiant à une Commission nommée par lui seul la mission de faire enquête en vue d'amender l'acte fédératif de 1867."[3]

[2] Ev. pp. 6625-26.

[3] Ev. pp. 8130-31. Provincial translation.—" . . . we beg to state that we are not appearing before your Commission either as an applicant, nor as a defendant, and that we shall not feel bound, in any way whatsoever, by the opinions contained in your report.

The Government of this Province is appearing before you because, in the first place, it did not wish to be lacking in courtesy towards this Commission, and also because its silence might have been construed as an acquiescence in the principle laid down by the Federal Government, in appointing, of its own accord and without consulting the Provinces, a Commission whose report might form the basis of possible amendments to the Constitution. . . ."

The Government of Ontario co-operated fully in supplying the Commission with statistical information, and in public hearings at Toronto, with the exception of answering a number of questions addressed to the Government by the Commission, but later declined to co-operate further, alleging that there had been a breach of faith on the part of the Dominion Government which had changed the gift tax section of the Income War Tax Act prior to the Report of this Commission.[4]

Retirement of the Chairman, Chief Justice Rowell.—To the great regret of his fellow Commissioners, the Chairman of the Commission, Chief Justice Rowell, became seriously ill in the early part of May, 1938, and was unable to attend the public hearings in Quebec and Fredericton. For a time it was hoped that the Chief Justice would recover sufficiently from his illness to permit him to resume his work with the Commission. When it was found that this was impossible the Chief Justice's resignation as Chairman was tendered to the Dominion Government. After a lapse of several months the Dominion Government felt compelled to accept Chief Justice Rowell's resignation and Dr. Jos. Sirois was appointed Chairman, but no new member was added to the Commission.

The illness and retirement of the Chief Justice was to each of us a great personal loss, and we bear tribute here to his fineness of mind and character, his courtesy, patience, and consideration, which made working with him a pleasure and a privilege. As Chairman he guided the planning of the research program and arrangements for final hearings, and he took an active part in the supervision of the research program up to the time of his illness. He presided at the public hearings in seven of the nine provinces. His great knowledge of Canadian affairs and of constitutional law, his long experience in public life and private business, his courtesy, tact and precision of mind, were of inestimable value both in the conduct of the public hearings and in the private deliberations of the Commission. We deeply regret that it was impossible for Chief Justice Rowell to participate in the preparation of our Report, and he is not in any way responsible for the conclusions which we have reached.

Final Hearings.—During our hearings in provincial capitals it had been indicated to the provinces that an opportunity would be given to them to make supplementary representations replying to the contentions of other provinces and of reviewing the research studies. Arrangements were made for final hearings in Ottawa after the provinces had time to consider each other's evidence and the research material prepared for the Commission. With regard to the research studies the Commission wished to give the provinces and the Dominion full opportunity to examine and criticize them before they were put in final form or used for purposes of the Report. Accordingly, draft copies of the research material as completed were sent to the Dominion and all provincial governments which signified their desire for them (among them Alberta). Final hearings were held in Ottawa from November 24th to December 1st, 1938. The Governments of British Columbia, Manitoba, New Brunswick and Prince Edward Island were represented, and various supplementary representations were made on their behalf. (The representations of Manitoba were supported by Saskatchewan, while Nova Scotia made certain comments to the Commission in writing.) In addition, some of the research material was discussed at length. Comments on the research material, whether during these hearings or by correspondence later, were given careful consideration.

The fact that the Dominion Government and several provincial governments did not appear at our final hearings somewhat altered the character of our inquiry. Our task was, however, to some extent simplified though not abbreviated. We were obliged to continue with our inquiry without having to consider how far our proposals would be acceptable to any of the ten governments.

Form of the Report.—The form of the Report was naturally of much concern to the Commission, but after due consideration it has arranged its Report to correspond roughly to the nature of its task. As already pointed out, the Commission was both a fact-finding body, and a body to make recommendations. For convenience it has accordingly kept its recommendations separate in the main from the detailed data on which they are based. Book I of the Report represents a "pooling" of the research work of the Commission's expert staff into the economic and social developments of the past seventy years and their bearing on the working of the federal system. Book II consists of recommendations based upon the evidence submitted in public hearings and the facts disclosed in Books I and III and in special research studies. Book III consists largely of relevant statistical data including summary statements of the Commission's exhaustive inquiry into Dominion and provincial

[4] Letter, dated July 13, 1938, from Hon. M. F. Hepburn, Premier of Ontario, to the Secretary, enclosing correspondence between Mr. Hepburn and the Prime Minister of Canada.

public accounts, summary statements of municipal finances, and statistical statements illustrating in detail the Commissions's financial proposals contained in Book II. It should be fully understood, however, that all three Books are part of a single report which has been bound in separate volumes merely for convenience. In addition to the Report proper, for which the Commission must take full responsibility, it may be noted again that the Commission has published in addition a number of its special research studies which it believes to be of general interest and relevant to the Report. For these research studies the Commission, of course, does not assume responsibility.

* * * *

Although the Commission did not have the benefit of any representations from the Dominion Government it received full co-operation and assistance from every official of the Dominion services from whom it requested information. At the request of the Commission a number of deputy ministers, assisted by members of their staffs, appeared at public hearings in Ottawa and gave valuable information concerning the work of their departments. In addition, much information, statistical and otherwise, was prepared for us by these and other officials in answer to private inquiries. To all these officials we express our appreciation for their patience and co-operation, and it will not be inappropriate to mention the following who gave us special assistance: Dr. R. H. Coats, Dominion Statistician; Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax; Mr. H. Marshall, Dominion Bureau of Statistics; Miss Margaret Mackintosh, Department of Labour; Dr. A. K. Eaton, Department of Finance; Mr. V. C. Phelan, Department of Labour; Mr. J. R. Beattie and Mr. J. E. Coyne of the Research Department of the Bank of Canada.

Particular mention must be made of the able and willing co-operation which the Commission received from the staffs of the Bureau of Translation and the King's Printer, who were required to work under great pressure and for long periods of overtime in the final stages of the preparation of the Report.

We desire to express our appreciation as a Commission and as individuals for the courtesy and hospitality which we have received in all parts of Canada. We thank especially those organizations which submitted briefs, and those officials and individuals who gave generously of their time and ability to provide information which the Commission required from them. The arrangements made by all provinces for the conduct of the hearings left nothing to be desired, and the general spirit of co-operation shown by provincial governments, municipalities and organizations which appeared before us was of great help to us in our difficult task.

The Commission also wishes to record its appreciation of the services and the fine spirit of co-operation of its secretariat, its research, reporting and clerical staffs. In particular it would mention the work of Mr. Skelton, who carried the dual load of administration and direction of research; of its other secretaries, Mr. Savard, Mr. Eggleston and Mr. Fowler; of Mr. J. C. Thompson who directed the Public Accounts Inquiry and Mr. J. A. Brennan, C.A., his principal assistant; of Miss Rowland and Mr. Deutsch who acted as Mr. Skelton's principal assistants in administration and the direction of research respectively; and of Professor Corry and Professor Creighton who assisted in co-ordinating research material. The research program of the Commission was the most comprehensive ever undertaken in Canada in a public inquiry. The Commission hereby records its appreciation of the excellent work done by its research staff, many of whom served at personal inconvenience and sacrifice. To its official reporters, Messrs. Oliver and Hubbard, the Commission's thanks are due both for the consistently high quality of their work and for their co-operation in making possible the very economical reporting. To the clerical staff, who were prepared to work at all hours and often under material conditions far from ideal, the Commission is deeply grateful. In this connection it wishes to mention the work of Mr. W. J. McHugh who was in charge of the enormous task of mimeographing the evidence and the studies; and Miss Mary White and Miss Rachel Fortin who acted as personal secretaries to the Commissioners.

Finally, we thank the press of Canada for their full and careful reporting of our proceedings; and for the informed, constructive comment and criticisms which they offered as the work of the Commission proceeded.

Chapter 1

CONFEDERATION

1. The Forces Leading to Confederation

Canadian Confederation was a great political achievement. It was made possible by a remarkable conjuncture of events which brought each of the separate colonies to a crisis in its affairs at the same time and pointed to political union as a common solution of their difficulties. Great Britain, for the time being disillusioned with empire, had reversed the military and commercial policies which had sheltered and nourished the colonies in the past. The loss of the imperial preferences had compelled all the colonies to face drastic readjustments. In the Province of Canada, this disaster coincided with the final failure of the costly St. Lawrence transportation system designed to tap the trade of the Middle West. The public finances of the Province were seriously involved in the failure of this ambitious venture at the very moment when the strife between Upper and Lower Canada had led to a political impasse. In the Maritimes, the nicely balanced economy based on the sea was threatened by the new agents of steel and steam; an onerous public debt had been incurred for railways and the loss of the imperial preferences was a heavy blow. These circumstances provided tribulations enough for colonial statesmen; in addition there was the hostile attitude and aggressive expansion of the United States.

The territorial aggrandizement of the United States impelled a defensive political union of the British colonies in North America. The loss of imperial preferences and probable withdrawal of trading privileges by the United States gave point to arguments for economic union. The railways, lately come to North America, provided for the first time a means of uniting vast continental areas under a single government. In a larger union, there might be not only an escape from present and impending misfortunes but also a brighter future. Out of the failures of the past, the perils of the present and the hopes for the future, there emerged a new purpose and design for British North America. It not only required that there should be union but also decided largely the form it should take. The purpose, the original structure and much of the subsequent history of the Canadian federation find their explanation in the very factors which brought union about.

The American Revolution left half the continent with two tiny pockets of settlement under the British flag. These two pockets had developed into four self-governing colonies, and struggling settlements had gained footholds in the western wilderness and on the Pacific Coast. The older colonies had matured greatly, both politically and economically, but, being essentially dependent on water transportation, they had remained isolated from one another. As British dependencies, their economic development had been shaped by the imperial commercial system. They thought in terms of external rather than British North American trade.

The Maritimes looked to the sea. They concentrated on their timber and fish, their shipbuilding and their carrying trade. Their own hinterland and the vast continent behind them were little in their thoughts. The Canadas had developed a thriving export trade in timber and wheat. The most active spirits, however, took these outlets for granted and faced inward on the continent. For them, the St. Lawrence water system was not so much a political boundary as a great highway leading into the heart of the continent. From the beginning, the Canadians had dreamed of a future when a trade of continental proportions would pour along their highway. The other British colonies had little place in their plans for the St. Lawrence as one of the great trade routes of the world. And the concerns of the Red River and Pacific Coast settlements were entirely foreign to those of Canada and the Maritimes. The separate pre-occupations of the colonies had led them in opposite directions emphasizing, in social terms, their physical isolation from one another.

Thus, in spite of their growth, the British colonies in North America had remained small and isolated pockets of settlement. They had grown up in reliance upon the mercantile privileges supplied by the British navigation laws and trade preferences. This was their world and they would be compelled to find an entirely new scheme of existence if it disappeared. And disappear it did in the two decades before Confederation. By adopting free trade at home, Great Britain swept away the privileges on which the provinces had relied. With the grant of responsible government,

imperial control over colonial fiscal policy was relinquished. The imperial authorities insisted that responsible government carried with it the responsibility for defence and the colonies were notified that the garrisons would be withdrawn. The threatened recall of the legions marked the end of the sheltered world the colonies had known.

Accustomed to shelter, the first reaction of the Province of Canada was to seek a new privileged relationship with the United States. This movement which resulted in the Elgin-Marcy Reciprocity Treaty of 1854 met with some short-lived success but the permanence of any such solution soon became open to the greatest doubt. Unfortunately for the peace of mind of the colonies, the change in British imperial policy coincided with the rise of continental imperialism in the United States.[1] During the fifties and sixties, the far west was rapidly organized into territories under the aegis of the United States. The projection of transcontinental railroads by American promoters aroused deep alarm in the minds of British North American statesmen.[2] Aided by new methods of settlement[3] and transport, settlers were swarming westward and eddying northward towards the domain of the Hudson's Bay Company.[4] This quick advance across the continent was accompanied by hymns to "manifest destiny" and by repeated, though largely irresponsible demands for the annexation of the British colonies to the north. Even if Canada and the Maritimes were not seriously threatened, it became increasingly doubtful whether the United States could be prevented from swallowing the rest of the continent, including the territories of the Hudson's Bay Company and the feeble British settlements on the Pacific Coast.

The American Civil War with its border incidents and its Anglo-American disputes intensified the alarm, and anger at Great Britain ensured that the United States would abrogate the Reciprocity Treaty at the earliest opportunity. The "Alabama claims" were translated into a demand for territorial compensation. Various threatening gestures were made by the American Union which emerged from civil war as one of the great military powers in the world. In the early sixties, the era of peaceful political relations and advantageous commercial arrangements with the United States appeared to be definitely over. The political independence of the colonies was insecure and their material prospects were discouraging in the extreme. They had lost their most valuable commercial privileges in the retreat of one empire and they had no hope of countervailing advantages from the threatening advance of another.

The abrupt reversal of British policy and the rapid expansion of the United States were events of world-wide significance. Either of them taken singly would have been a heavy blow to the provinces. Their coincidence intensified this pressure and gave it an urgency it might otherwise have lacked. Had Britain retained the old commercial system, the provinces might have remained uneasily passive in the face of American expansion. If their southern neighbour had shown herself pacific and eager to trade on advantageous terms, they might have permitted themselves to be drawn quietly and separately into her orbit. As it was, these events were loosed upon them in the same period, forcing them to contemplate radical measures. They began to see solid advantages in a political union which had never hitherto been seriously entertained. Through a united front, they might hope to resist the northward expansion of the United States. By organizing trade among themselves, they might compensate for the loss of their valuable commercial privileges.

There were a number of factors in their domestic situations which urged drastic action and also pointed to the same solution. The long efforts to draw the trade of the mid-continent down the St. Lawrence had met with final failure. The public debts incurred for railways and other improvements of the St. Lawrence transportation system had almost destroyed the credit of the Province of Canada in the London money markets. The possibilities of further expansion within the Province were severely limited and vigorous commercial groups in Montreal and Toronto, disappointed over the failure to tap the Middle West, were looking for new fields for enterprise. In these circumstances, attention turned increasingly to the possibilities of the North-West. The imperial authorities were willing for Canada to take over Rupert's Land. As long as everything depended on water transportation, it had not been commercially accessible. But the coming of the railways seemed, for the first time, to open the way for its development. South of the boundary, the United States was showing how railways could be used to organize a continental domain. With the aid of this new technique, Canada might duplicate the impressive

[1] Texas was annexed in 1845, Oregon in 1846, and Alaska purchased in 1867.

[2] The Union Pacific was chartered in 1862 and the Northern Pacific in 1864, the latter being frankly planned as an international transcontinental road.

[3] In 1862, the Free Homestead Act opened the American West on most advantageous terms to incoming settlers.

[4] Minnesota, which lay just south of the tiny Red River settlement, was admitted to the Union in 1858.

expansion of the United States. As an escape from the disappointments of the past and the hampering limitations of the present, the attractions of a national transcontinental system became ever more compelling.

The pressure for expansion to the West came mainly from Upper Canada, seething with the typical urges of frontier America. This fact had a disturbing influence on the unstable political union of Upper and Lower Canada. In spite of the unitary form of the constitution established in 1841, the Province of Canada had taken on the main features of a federal system. The Act of Union had awarded each section an equal number of representatives in the provincial assembly, and the practice of dividing ministerial posts and votes of public money fairly equally between them maintained an uneasy political balance between French-speaking and English-speaking Canadians. The instability of this equilibrium became more marked as the population of Upper Canada outgrew that of Lower Canada and the former demanded increased representation which would reflect its decisive superiority in numbers. The union thus endangered the cultural heritage of Lower Canada. Annexation of the Northwest, leading to further British settlement, would involve a westward transference of the provincial centre of gravity. Lower Canada would be doomed to political subordination, and the threats to its cultural values were intensified.

French Canada would not acquiesce in the swamping of its own way of life and the collapse of the Taché-Macdonald Government in June, 1864, after only three months of office, clearly revealed the impasse to which Canadian politics had been brought. The coalition which succeeded it was frankly formed to explore the possibilities of federal union, either of the Canadas alone or of British North America as a whole. In the Province of Canada, internal political deadlock and financial stringency intensified the pressure for a sweeping adjustment.

At the same time, the vision of transcontinental expansion had begun to have some attraction for the Maritimes. They were suffering from the loss of their protected markets and the new techniques of the industrial revolution were disturbing their habitual pursuits. Steam-driven vessels were overhauling the famous clipper ships and cutting into the carrying trade of the Maritimes. These circumstances led them to consider seriously the possibility of closer relations with Canada. Here again it was the railway which brought this possibility within the realm of the practical. New Brunswick and Nova Scotia had strained their public finances to build railways which were as yet incomplete. But the completion of the Intercolonial would, it was thought by many, bring the commerce of Canada into the ice-free ports of Halifax and Saint John. With a little optimism they could see the trade of a transcontinental British North America canalized in the same way. And for the Maritimes too, the growing belligerence of the United States darkened the horizon, and intensified the Maritimes' recognition of their own inability to protect the fisheries.

Thus the pressure for union grew out of the circumstances of the colonies. The nature of these circumstances, both economic and political, determined the character of the union. The political conditions are familiar and need no further discussion. The economic conditions influenced greatly much of the framework and detail of the federal scheme. To grasp the design of the architects of Confederation it is therefore important to look more closely at the economic and social conditions of the time.

2. The Economy at Confederation

About three and a half million people lived in the British North American colonies at the time of Confederation, three-quarters of them in the Province of Canada. Four-fifths of the total population was rural. Montreal, much the largest city, had about 100,000 population.[5] Most people were engaged either in cultivating the soil or extracting raw products from the forest and the sea. These principal occupations supported a small group of manufacturing, handicraft and service industries, widely scattered through the settled areas. These industries were sheltered from foreign competition, partly by natural advantages such as local abundance of cheap raw materials and the lack of transportation facilities and partly by the incidental protection of a revenue tariff. The percentage distribution among the various occupations is shown in Table 1 on the following page.

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[5] Quebec with 60,000 and Toronto with 50,000 were the only other towns boasting more than 30,000 population. Barely 12 per cent of the total population lived in towns exceeding 5,000.

TABLE 1.—OCCUPATIONS OF THE PEOPLE, PERCENTAGE DISTRIBUTION, 1871[6]

—	Ontario	Quebec	New Brunswick	Nova Scotia	Total
	%	%	%	%	%
Farmers, lumbermen and fishermen	51	52	51	52	51
Manufacturing and handicrafts	14	11	12	10	13
Construction and unskilled labourers	18	17	18	15	18
Miners	.....	.....	.....	2	.....
Sub-total	83	80	81	79	82
Services*	17	20	19	21	18
Total	100	100	100	100	100

* Includes wholesale and retail trade, transportation and communication, government and education, finance, the professions and personal services.

The self-sufficiency of separate families and of small isolated communities—in short, the rural and frontier nature of the economies as a whole—is illustrated by the relative unimportance of the service occupations. A complex, highly specialized, metropolitan society requires a highly developed system of services.[7] In the Canada of today, about forty per cent of the gainfully occupied are engaged in supplying services rather than in producing goods, compared with eighteen per cent at the time of Confederation. The extraction and crude processing of natural products then absorbed the energies of most of the population.

The Maritimes—dependence on wood, wind and water techniques

The economy of the Maritimes was based on the forest and the sea. Fishing, lumbering, shipbuilding and the carrying trade were the principal occupations. Table I indicates that farming, lumbering and fishing accounted for over half of those gainfully employed in New Brunswick and Nova Scotia. As the numbers who made farming a full-time occupation were not large, the overwhelming importance of the forest and the sea is clear. The Maritimes had grown up as a part of the old British commercial system which sought to make the Empire a closed trading unit, and they had responded to the demands of that policy. Fish had long been one of the great staples which the colonies were encouraged in various ways to produce. Indeed, the rise of Nova Scotia was, in a measure, due to the protected markets for cod in the West Indies which were partly lost by the New England fishermen after the Revolution. Accustomed to the sea, the Maritime fishermen naturally undertook to carry their fish to their markets and thus "Bluenose" ships first ventured into deep-sea carrying. The markets of the West Indies were many, small and scattered which prompted the Maritime captains to diversify their cargoes to facilitate ready disposal of them. Thus the production of lumber, potatoes and miscellaneous small manufactures was stimulated at home and these articles were added to the cargoes which cleared for the West Indies.

In the same way, the large-scale exploitation of the forest got its first stimulus from the establishment of colonial timber preferences during the wars with Napoleon. A large trade with Great Britain in square timber grew up and reached its peak about 1850. As the stand of large trees suitable for this trade approached exhaustion, a demand arose for lumber, particularly in the United States. Saw-mills sprang up at the mouths of the rivers in the Maritimes and exports of sawn lumber and deals began to replace square timber. In the sixties, the Bay of Fundy lumber trade was one of the chief world staple trades in terms of volume. The carrying of these bulky timber products always made large demands on shipping and the Maritimes were early drawn into building their own wooden ships for the purpose. Most of the rough ships used in this trade were sold in the same market as the timber and lumber which they carried.

The shipbuilding and carrying trades sprang from the basic Maritime occupations but soon grew beyond them. At the middle of the last century, the Maritimes were one of the world's great commercial maritime powers, holding fourth place in registered tonnage of shipping. They had begun by building ships to carry their own produce and this still provided the backbone of the business. In addition, however, the vessels of Nova Scotia and New Brunswick were engaged in the trade from Europe to the United States, to South America, the East Indies and Australia. They carried coal from England to the East, guano from the Chincha Islands to England and France, petroleum from the Gulf ports to Europe and South America and wool from Australia to Europe. The "Bluenose" vessels were to be seen in every great port in the world.

The principal industries of the Maritime colonies were thus closely allied and in large measure

[6] These percentages are derived from the census of 1871 and may be taken as approximately correct for 1867.

[7] That is, occupations which are not concerned with the direct production of goods, such as wholesale and retail trade, transportation, banking, the professions, etc.

complementary. It was impossible to think of the lumber or fishing industries apart from the shipbuilding and carrying trades and, on the other hand, anything which threatened the carrying trade would compel fundamental and sweeping readjustments in the other occupations. It was a highly unified and integrated economy. In a personal and more intimate sense, several of these occupations were often unified in a single enterprise carried on by one individual or trading group.[8]

Thus the Maritimes had mastered the techniques of the wood-wind-water era. On the basis of forest products and fish, they had made a place for themselves in world industry and trade. All their minor and subsidiary occupations were nicely geared to support and develop these leading industries. This balance in their economy and the perfection of their skills signified a confident maturity which enabled them to compete on even terms in the deep-sea carrying trade.

Nova Scotia was the most diversified of the Maritime Provinces. Its exports were of a greater variety and spread over a wider range of markets. Nevertheless, in 1866, fish accounted for over 40 per cent of the value of total exports.[9] The trade in fish was almost entirely with the West Indies and the United States, the former outlet in 1866 being only slightly more important than the latter. The Reciprocity Treaty, which gave free entrance to the American market, and the Civil War had greatly stimulated the fishing industry in Nova Scotia. Between 1860 and 1866, the value of Nova Scotia fish exports rose by almost one-half and about three-quarters of this increase was absorbed by the expanding market in the United States.

It is difficult to state precisely the relative importance of the principal occupations since so many worked in several industries at the same time. The schooners employed in fishing in the spring participated in the West Indies trade during the fall and winter. Most of the fishermen combined farming and lumbering with their fishing. A highly individualistic and resourceful people used their farming operations to establish a marked degree of self-sufficiency while they secured supplementary cash income from fishing and lumbering. A great many of them were, at one time or another, engaged in the carrying trade. In addition to those who made it a part-time employment, the carrying trade provided full-time occupation for about 13 per cent of the gainfully employed in Nova Scotia in 1866.

Nova Scotia built her ships for her own purposes rather than for export. In the period between 1863 and 1866, the annual value of ships built was as much as one-third of the total value of all exports. The vessels owned by Nova Scotians in 1865 represented an investment of about $9 million compared with a total capital investment in manufacturing of $6 million. The available statistics do not suffice to give a distinct and complete picture but they do indicate that the life of Nova Scotia was dominated by the sea.

The economy of New Brunswick had a much simpler pattern than that of Nova Scotia. It was virtually a vast lumber camp. In 1866, forest products (excluding ships) made up nearly 70 per cent of the total exports of New Brunswick. Apart from subsistence fishing and farming, lumbering with its allied shipbuilding and carrying trade made up practically the entire economy. Great saw-mills were located chiefly at the mouths of the St. John and the Miramichi Rivers giving employment to three or four thousand men while half as many again were occupied in the logging activities which fed the mills. Thousands of farmers derived a substantial part of their income from logging and from growing hay, oats and potatoes for the lumber camps.

The ships built to carry the lumber to foreign markets were the most specialized product of the New Brunswick economy. Between 1862 and 1865 the value of ships built in New Brunswick varied from three-quarters to one-half of the value of all other exports.[10] Shipbuilding thus had a major place in the economy. It was the one manufacturing activity (aside from the simple processing of the saw-mill) in which the Province had a differential advantage, providing an alternative to mere extraction and export of raw materials. Most of the towns were greatly dependent on the employment it offered. It brought in a relatively large amount of income from abroad as about half the output of ships was exported. The carrying trade was not nearly as important as it was in Nova

[8] The following account brings this out clearly. "The lumber for these assorted cargoes came from small local mills. Many of these mills would be owned and managed by men who had farms in the neighbourhood and whose interests also extended to the sea and ships. The Bluenose farmer, proclaimed the handiest man in the world, was commonly credited with raising the potatoes for his cargo, felling and sawing the lumber for it, building his own schooner in his spare moments and finally sailing her down to the Islands where he turned merchant and disposed of his wares." A. R. M. Lower, *The North American Assault on the Canadian Forest*, p. 70.

[9] Minerals made up 16 per cent of all exports, forest products 11 per cent, agricultural products about 20 per cent, and a miscellaneous group of products, including all manufactures, accounted for only about 12 per cent.

[10] They easily exceeded by one-third the value of ships built in Nova Scotia during the same period.

Scotia,[11] yet about seven per cent of the gainfully occupied inhabitants of the Province obtained full-time employment in it. The lumbering, shipbuilding and shipping industries of both provinces, but particularly of New Brunswick, prospered on the demands of the American Civil War. With the coming of peace, the American markets declined sharply.

Prince Edward Island was neatly integrated in this Maritime economy. Its people had retired largely from the sea and taken up farming.[12] It had already become a highly developed and specialized agricultural community. In 1867, it had approximately the same population, number of farms, occupied acreage and grain production as at present.[13] Its considerable agricultural surpluses went mainly to supply the exporting industries of the neighbouring colonies. These, however, were not adequate to the needs of Nova Scotia and New Brunswick which imported large quantities of foodstuffs annually from the United States.[14]

The Last Phase of the "Golden Age" of the Maritimes—the coming of the steamship and the railway

The very substantial prosperity of the three Maritime Provinces in the pre-Confederation years rested upon their fish and lumber exports, wooden shipbuilding and their carrying trade. The maintenance of this "Golden Age", as it has since come to be known, depended on the continued stability and prosperity of each one of this set of closely allied and related industries. By the middle sixties, there were plenty of indications that it rested on a precarious base. The best as well as the most accessible of the timber resources had been cut off. The commercial privileges contained in the colonial preferences and the navigation laws were gone. The provinces had to face the competition of New England in the fish markets of the West Indies, and with the abrogation of the Reciprocity Treaty in 1866, they were compelled to forgo (temporarily, as it turned out) their free market for fish in the United States. The Civil War had stimulated exports and provided new opportunities for the carrying trade. It brought a lush, though temporary prosperity and masked, for the time being, the long-term factors which were operating against the Maritimes. Once the War was over, the full weight of these factors began to be felt and the "Golden Age" soon became a memory.

It was the coming of the steamship which most surely foreshadowed the decline of this balanced economy of the Maritimes. By 1860, the holds of steamers already supplied about ten per cent of the ocean tonnage of the world and sailing vessels were being forced into longer and less profitable hauls. Steamships were regularly making better Atlantic passages than the fastest sailing ships. The age of steel and steam was ousting the wooden sailing ships and undermining the foundations of the economy of the Maritime Provinces.

The implications of steel and steam were as yet only vaguely realized. Scaremongers might forecast their significance but, as in most human affairs, only a demonstration would carry conviction. The opportunities arising out of the Civil War had carried Maritime prosperity to its highest peak and it was not realized that the assurances given by this bustling activity were superficial, or even false. The Maritime people believed in the sea. They were confident of their power to make any necessary adjustments and maintain their enviable position in the commerce of the world.

If they were not alert to the threat of the steamship, they were becoming very much alive to the promise of the railways. It was seen that railways would improve their communications and open up their own hinterland for development. Many were confident that railways would open markets for coal, fish, and manufactures in the Canadas and draw the expanding commerce of the interior to their seaports. The coal interests of Cape Breton, for example, were strong supporters of the Confederation scheme. For almost the first time, the Maritimes began to feel the pull of the continent behind them.

For upwards of twenty years before Confederation, they had tried to secure the building of a railway to connect Canada with the Maritime winter ports. But projects for the Intercolonial had always collapsed. It was not attractive to private capital. The governments in the colonies were never able to agree on the terms on which it should be built as a joint project. The British Government, whose guidance and assistance alone could have surmounted these obstacles, wanted a military and strategic road, hugging the east shore of New Brunswick, while New Brunswick, in particular, disdained a railway which failed to

[11] In the sixties, New Brunswick had only about half the registered tonnage of Nova Scotia.

[12] There was some fishing and at times an important shipbuilding industry, but farming was by that time by far the most important occupation.

[13] In the present century there has been a considerable shift toward the production of agricultural specialties such as dairy products, potatoes, cattle and foxes.

[14] A large proportion of these imports from the United States consisted of wheat and flour, trans-shipped from Upper Canada, via Portland.

connect Saint John and Fredericton with the Canadas.

An equally ambitious scheme which failed of fruition was the "European & North American Railway", designed to connect Halifax and Saint John with Portland, Boston and New York and to deliver trans-Atlantic passengers, mail and express freight in record time. The hopes of an imperial guarantee were disappointed and New Brunswick and Nova Scotia could not finance either line themselves. They did, however, build pieces of railways, designed to fit into the larger schemes but insufficient to give them the external connections they desired. Thus by the time of Confederation, the two Provinces had built 379 miles of railway which improved their internal communications but harmed their own coasting trade. The most impressive result obtained was the addition of some $\$10\frac{1}{2}$ million to their public debt.

On the eve of Confederation, then, the Maritimes had a mature and prosperous economy, dependent on a wood-wind-water technique fast becoming obsolete. They were beginning to feel the pressures of the revolution in transportation. Their tentative efforts to apply the new technique of steel and steam and to integrate their economies with those of the United States and the St. Lawrence Valley had been unsuccessful, and they were debating the question whether the promise of an intercolonial railway was worth the obligations and the risks of political union with Canada.

The Canadas—their concern with transportation —common and conflicting interests

Upper and Lower Canada, although divided by cultural and sectional cleavages, had never been intended by nature to form separate economic systems. The St. Lawrence, with its access to the sea and its ingress to the continent, was bound to unify its drainage basin economically. There are, therefore, better reasons than the political union of 1841 for discussing the pre-Confederation Canada as an economic entity.

The St. Lawrence basin contained a considerable area of fertile land lying south of the Laurentian plateau. This available land had been largely filled with settlers in the years before Confederation. Along with this rapid agricultural development had come a flourishing pioneer industry, laying the foundations for a diversified economy of modest yet substantial proportions. Under the conditions of the time, it was naturally becoming a community of settlements, devoted to internal trade and commercial intercourse with the United States.

At the same time, there was an aggressive and ambitious commercial group in Montreal, supported in the later part of the period by the growing commercial interest in Upper Canada, which thought of the St. Lawrence as primarily a trade route and which had vigorously endeavoured to have the whole political and economic structure accommodated to that conception. From the days of the fur trade, the commercial group in Canada had seen the St. Lawrence as an integral part of the old British commercial system and had striven to make the trade of a continent flow through their hands instead of through New York. Successive colonial governments had been inspired by this dream with the result that government policy and public finance had been harnessed to the grandiose conception of the St. Lawrence as a trade route. In ambitious but always futile efforts to realize this great plan, the Province had accumulated a set of public works and a crushing public debt, both too massive for an economy limited by its own boundaries.

New York had challenged the St. Lawrence trade route, first by the Erie Canal and then by the railways. Canada had countered, first, by the canal system of the St. Lawrence, built as a government project, and second, by the Grand Trunk Railway, undertaken by private capital but relying heavily on government loans. Both Canadian ventures failed to attract the trade of the American Middle West. In 1862, soon after the completion of the road, the Grand Trunk Railway Company was in serious financial difficulty.

The Government of Canada had gambled heavily in railway development through the fifties and early sixties. By 1866, it had loaned $33 million to railway companies while municipalities had contributed $7 million. Virtually the whole of the $40 million, which made up forty per cent of the total provincial and municipal debt, was uncollectible. If canals are included, the government investments in transportation amounted to almost sixty per cent of the provincial and municipal debt. Altogether, about one-third of the current expenditures of the Province and the municipalities were incurred on transportation. The attempt at commercial integration with the interior of the continent had irretrievably failed and left behind it a burden of debt which weighed oppressively on the economy.

The railway development of the preceding decade had opened up the country for settlement and for exploitation of its great timber resources remote from the river valleys. The flow of immigrants had filled up the most promising parts of the Province and almost all the good agricultural land had been occupied. By 1866, forty-one out of the fifty-one million acres surveyed had been disposed of. The pioneer type of community must expand outwards and the substantial limits of that type of expansion in the Province had been reached.

Despite the concentration of public expenditures on the development of the trade route, agriculture had become the most important source of livelihood in Ontario and Quebec and it had displaced the forest as the chief source of exports. The latter, however, retained much of its old importance. Lumber had succeeded fur as the great staple emerging from the St. Lawrence. The industry prospered, first, on the British colonial preference and then on the expanding markets of the United States. Farming communities grew up around and depended on it. The coming of the railways increased the available supplies and general expansion and the American Civil War stimulated demand. The building of wooden ships flourished at and near Quebec and the lumber trade made this city one of the great shipping centres of the world at the time.[15]

Over half of those gainfully occupied in the Province of Canada were employed in farming and lumbering. In the period, 1860-65, agricultural and forest products provided over four-fifths of the exports. The combined stimulus of the Reciprocity Treaty and the Civil War had greatly increased the exports of both groups of commodities to the United States.[16] The abrogation of the Treaty threatened very serious consequences, particularly for agriculture the exports of which were almost double those of the forest industry during the period 1860-65.

The Rise of Manufacturing in the Canadas

The manufacturing industry had grown rapidly and was becoming diversified after 1850. The new industrial methods spreading out from England were attracted by local supplies of raw materials and the natural shelter arising from lack of transportation facilities. The revenue tariff afforded some incidental protection. Under such circumstances, local production of some articles was more economical. Accordingly, most of the manufacturing industry was scattered in small units through the towns and villages of the agricultural settlements. Generally, it was of a kind which required little capital and little highly specialized skill. As the railways spread, there was a tendency toward increase in size of unit and concentration in strategic centres. There had long been a large flour-milling industry in Montreal, catering to the export trade, and industries began to concentrate in Hamilton and Toronto. In general, however, manufacturing enterprise remained small, simple and decentralized. Almost every town produced agricultural implements and the other tools used by a pioneer community. Machinery and tools requiring a high degree of skill for their production were almost entirely imported. Woollen mills, boot and shoe factories, furniture factories, breweries and distilleries thrived on local raw materials and the incidental protection of a revenue tariff. But in such commodities as cotton and linen textiles, dependent on foreign raw materials, no progress was made toward local production.

In spite of the rapid development, the total industrial factory production was small. This was by no means entirely due to the economic advantage of buying cheap foreign manufactures with exports of raw materials. To a degree which we now find hard to realize, individual households were self-sufficient. There was also a large group of craftsmen who lived largely by barter. The blacksmith, carpenter, shoemaker, tailor and dressmaker produced a variety of the basic necessaries, often in return for produce or a share of the raw materials used. In the census of 1871, this group of craftsmen reported an output equal to one-fifth of the total of all manufacturing establishments, excluding saw mills and flour mills.

Cheap and improved transportation had already begun to draw industry from the farm and the village to the city. But the huge concentration of industry into large units in the relatively few great industrial centres of today had to await further developments in transportation, the improvement of old and the invention of new techniques, the extension of markets and the perfection of the joint stock company as an instrument for collecting large pools of capital. At the time of Confederation, small enterprise still ruled the field. In 1870, the average capital invested per establishment was $1,900 compared with $217,000 for 1930. In 1870, the three leading urban centres contributed about

[15] Almost half the population of the City of Quebec was directly supported by the shipbuilding industry alone.

[16] Total exports to the United States, which had averaged scarcely $9 million for the period 1852-54, had grown to an average of about $19 million for the period 1860-65.

one-quarter of the total net value of manufactures while today they contribute nearly one-half. In 1867, there were not more than 50,000 labourers employed in all the cities of the four provinces.

Self-Sufficiency—the importance of the family as an economic and social unit

Seventy or eighty years ago, material income was, for most, limited to the basic requirements of food, clothing and shelter. These were chiefly the product of local industries, geared to local consumption, and in which individual enterprise was predominant. To a great extent, they were secured without passing through the money exchange system at all. Thus the sharp and frequent trade fluctuations of the period did not cause profound dislocations. The simplicity and decentralization of factory industry and the ease with which the worker could retreat to the self-sufficient farm gave to the economy a capacity for adjustment which it has largely lost in later years with the shift to large-scale organization and urban concentration.

In Lower Canada, agriculture was on a more nearly self-sufficient basis than in any of the other provinces. Very little was produced for sale and the farmer was absorbed in the manifold activities necessary to make the family a self-sufficient economic unit. In Upper Canada, on the other hand, newer soil and larger holdings yielded considerable surpluses for sale. The surpluses in the early days were mainly wheat; and relentless cropping provided large exports in the days of the colonial wheat preference, and later during the Crimean War. In the sixties, decline in fertility of the soil, the Reciprocity Treaty and the American Civil War resulted in a greater diversity of products. By 1866, exports such as barley, rye and cattle had become important. Exports of cheese were still small and the sale abroad of commodities such as tobacco, fruits and vegetables had to await improvements in transportation and the development of a more intensive and specialized agriculture. Although agricultural exports increased greatly in the decade before Confederation, the return from this market provided a relatively small part of total farm income, the average income per farm from this source being from sixty to seventy-five dollars per year.

The increase in cash income and the high prices for many products during the American Civil War were coaxing many farmers away from self-sufficiency and into specialization. This movement, however, was just beginning and the farm household in Upper Canada was still a basically self-sufficient unit. Food was grown and processed at home. The raw products of the farm were turned into articles of wear with the assistance of the local shoemaker and tailor who would take produce in return for their services. Such necessaries as tea, sugar, hardware and certain articles of clothing which could not be produced at home were generally obtained by barter from the local general store. Tallow was turned into candles, fatty refuse into soap, and the tools which were beyond the ingenuity of the farm workshop could generally be contrived by the local blacksmith.

What was true of the Upper Canada farm was even more true of the agricultural communities in Lower Canada and the Maritimes[17] where such things as furniture, carts, and carriages were frequently made on the farm. The farm of the period was a miniature factory or combination of factories. Much of the work of the large industrial army of today, concentrated in highly specialized factories in the cities and towns was, in that early period, performed in a multitude of rural households.

However prices might fall and cash income from other sources might melt away, the farm household always produced enough to prevent abject poverty. This fact had its importance for other industries as well. The farm was often a base of operations, on which individuals could fall back when other projects and occupations ended in disaster. In the Maritimes, agriculture, fishing and lumbering were closely allied. Everywhere the family and its relatives were a close economic unit; the various members helped one another when new enterprises were started or old ones failed. The material basis for this mutual welfare association was the family farm.

The Economic Outlook of the British North American Colonies—the coincidence of unfavourable developments

The closely inter-related activities of the Maritimes dependent upon the wood-wind-water techniques, and the agricultural, forestry and commercial economy of the Canadas had achieved a considerable prosperity in the decade before Confederation.

[17] In 1870, seven and a half million yards of woollen cloth were produced on farms in Canada. This was nearly equal to the total value of the output of the numerous woollen mills and the imports of woollen cloth combined. In a speech at Halifax in 1865, A. G. Archibald referred with pride to the Maritime agriculturalists, "the great body of settlers in the country whose backs are covered with woollens of their own production, whose feet are shod with the hides of their own cattle, who sleep between blankets of their own wool and their own weaving—on feathers from their own farmyards." *Evening Express*, January 4, 1865.

However, in each of the British North American colonies the basis of that prosperity threatened to disappear as the 1860's drew to a close. The Province of Canada had a transportation system which had been conceived for a continental commerce rather than for its own needs as an economic unit. The commercial dream had evaporated and left a paralyzing burden of public debt. Further industrial expansion depended on expanding markets. Unfortunately, the limits of great agricultural expansion had been reached. The best land was occupied and profitable exploitation of the poorer land depended upon buoyant foreign markets for agricultural exports. The outlook for such export demand was gloomy. Hopes for renewal of the British preferences had been extinguished. Most threatening of all was the loss of American markets for agricultural products, foreshadowed by abrogation of the Reciprocity Treaty and the agricultural expansion of the Middle Western States. For five months of the year, Canada had no outlet to the sea and there was constant fear that the United States would make good its threat to withdraw the bonding privileges for Canadian trade. The factors which had made for expansion in the past had practically played themselves out.

The full significance of this is clearly revealed by the movements of population. From 1851-61, the British North American colonies are estimated to have held the equivalent of their own natural increase and a net balance of 175,000 immigrants over emigrants. From 1861 to 1871, there was a net emigration of over a quarter of a million, involving the loss of about one-third of the estimated natural increase for the period.[18] Canada was failing to attract immigrants and losing her native sons. The prospects indicated decline rather than expansion. And on a declining rather than an expanding prosperity the burden of the large public debt would become intolerable.

The economic outlook compelled the Province of Canada to search for a means of escape from hampering burdens and limitations. Judging from the spectacular progress of the United States, the coming of railways had made practicable the hitherto vague project of acquiring Rupert's Land and of linking up with the colony on the Pacific. They would also furnish winter access to the sea through the Maritimes. By bringing this area, stretching from sea to sea, under a single government, vast new possibilities for expansion would be opened. The trade of the Orient would be tapped and a great internal market, integrating the occupations and resources of all the colonies, would be established. With some reorganization, the transportation system of the Province of Canada could be transformed into an important link of a national transcontinental system. It would cease to be a burden and become a valuable asset which Canada could contribute to the joint capital needed for the new venture. It is significant that the Grand Trunk Railway Company, whose fortunes were as much at stake as those of the people of Canada, reached the same conclusion. The president of the company, Edward Watkin, came to Canada in 1862 to investigate its difficulties. He decided that the only hope of salvage was the launching of a larger venture and thenceforth he was a powerful and effective advocate of union of the British North American colonies.

The opening up of the Northwest had had a romantic appeal in the eastern colonies for two decades. Its possibilities were imagined to be great, but there was little on which to base an estimate of its solid possibilities. The Red River Settlement contained scarcely ten thousand people. Most of these were half-breeds. The manner of their livelihood had been fixed by the activities of the Hudson's Bay Company and they were indifferent to any intensive cultivation of the soil. However, the isolation of the Settlement was over. Hundreds of carts were employed in overland transport between Fort Garry and St. Paul. There were steamboats on the Red River and American settlers and railways were pushing toward the ill-defined lands of the Company. The new methods of transportation were threatening the Hudson Bay route and disposing the governors of the Company to consider the future closely. Inside the settlement, the settlers were dissatisfied with the Company Council's rule.

Beyond the mountain barrier, on the Pacific Coast, the two colonies of Vancouver Island and British Columbia were united in 1866. Union had been brought about largely by the staggering public debt and repeated budget deficits. These colonies had just experienced a mushroom growth, due almost entirely to the gold rush which began in 1855 and which collapsed suddenly about ten years later. In the first year of the gold boom, it is estimated that some 25,000 people entered the two colonies. The feverish search for gold produced a rapid but precarious expansion. Trade and con-

[18] These figures are for all the provinces. But the Province of Canada had three-quarters of the total population and there was little movement of population in the Maritimes, particularly in the latter decade. The figures, therefore, give a substantially correct picture for the Province of Canada.

struction flourished and the subsidiary industries of lumbering and agriculture sprang up. The Government piled up large debts in promoting developments such as the Cariboo road. Then suddenly the rich gold diggings petered out and population fell sharply. In 1866, the total immigrant population of the new Province of British Columbia was little more than ten thousand. The credit system built up to serve the new mining enterprises crashed and buoyant optimism was replaced by gloom and depression. The public debt mounted to more than one hundred dollars per white inhabitant and the budget could not be balanced. British Columbia, depressed and discontented, was concerned to extricate itself from isolation and the burden of the public debt.

Union—a common means of escape and renewed expansion

Thus, for diverse reasons, the economic outlook of all the British North American colonies on the eve of Confederation had many alarming and depressing features. It was a significant coincidence that all the colonies, travelling their separate and well-nigh independent paths, reached an economic cross-roads at the same time. The Canadas, burdened with the failure of their two great bids for western expansion, and dispirited by the closing of their own frontier, were in need of a new outlet and stimulus. The Maritimes, tied to a dying industry, were in even greater, if less conscious, need. The tiny Red River Settlement was beginning to find its feet, but was toddling into the arms of the United States in the process. The Pacific Coast gold rush had fostered some basically sound development, but its recessions had left a small population stranded with a large debt.

Isolated as were the colonies from one another, the Maritime colonies and the colony of Canada were brought together by certain common characteristics in their external relations and the effects of technological changes on their economies. All had been deeply affected by the radical change in imperial commercial policy; all had turned hopefully to the United States and had established profitable but precarious relations; all were deeply alarmed at the prospect that these might be rudely terminated. The impact of the steamship, the railway and the industrial revolution had affected them all profoundly, if variously. The new means of transportation made possible a union of continental proportions in which all hoped to find escape from existing difficulties and stimulus for renewed expansion and prosperity.

3. The Nature of Confederation

Principal Objectives

Confederation was conceived as the solution for a number of political and economic difficulties and, therefore, had both political and economic aims. Politically, it was designed to establish a new nation to meet the changed conditions of British policy and to brace the scattered provinces against possible American aggression. Economically, it was intended to foster a national economy which would relieve dependence upon a few industries and lessen exposure to the effects of the economic policies pursued by the United States and Great Britain.

Political union was expected to promote strength as against the external world. The triumphant Northern States appeared a threat to territorial integrity. Other interests needed protection too. Nova Scotia felt her deep-sea fishery interests threatened, and the special institutions and culture of Lower Canada would not long have survived absorption of the colonies by the United States. Political union was designed to defend navigation rights on the St. Lawrence and its canals, and fishing rights at sea. A single united authority could use both these and access to its extended internal market as bargaining counters for advantages in international trade. A stable political authority would restore the public credit, so badly damaged by the accumulation of debt and political dissension. In the money markets of the world, the credit of the whole would be greater than that of the parts and would provide a broader base for the government expenditures necessary to attain new and difficult economic objectives.

Federal union was a plan whereby, through mutual concession, cultural and local loyalties could be preserved and reconciled with the political strength and solidarity of the whole. These separate loyalties were strong and their existence was keenly realized. They existed not only in Canada but also in the Maritimes where they had helped to frustrate projects for Maritime legislative union. Mutual concession required the English-speaking elements of Lower Canada to relinquish their integral union with the English-speaking people of Upper Canada while the French-speaking Canadians abandoned their objections to a superior political authority in whose councils they would be in a minority. In compensation, the broad questions of trade and commerce which so intimately concerned the English-speaking people of Lower Canada were to be given to the federal

authority, thus securing the benefits of single control in these matters of general interest while French-speaking Canada was to be secured in sole control of the cherished values it so tenaciously held. Equally, this solution offered security for the historic traditions firmly rooted in the Maritimes.

Economically, the first objectives of Confederation were to establish a free-trade area comprising the five old provinces and to develop inter-provincial transportation facilities. The resources and industries of the several provinces, it was thought, would prove complementary to each other, and would increase prosperity and self-sufficiency. To make this a reality, the Inter-colonial Railway was to link the Maritime Provinces with the St. Lawrence Valley and to give Canada winter access to the sea.

Another great economic objective of Confederation, to be realized as soon as circumstances permitted, was the opening up of the Northwest and the inclusion of the Pacific province. For the Province of Canada, in particular, this westward expansion was to provide an escape from a *cul-de-sac* and the threatened economic stagnation. New frontiers and new resources would provide opportunities for settlement and development. It was recognized as an immense undertaking for which no specific detailed plan could be made under the urgencies and limitations of the moment.

This project had to await the acquisition of the lands of the Hudson's Bay Company. It required the building of a transcontinental railway. This, in turn, depended upon attracting new capital and capital, at that time, had become shy of Canadian ventures. Collective effort and resources on a scale which only government could secure were necessary and, at the same time, conditional on the restoration of the public credit.

Although these plans were necessarily vague in 1867, they were nevertheless resolutely held. The new political framework was designed to give the Federal Government ample powers for the prodigious task of opening up the West. The Federal Government was intended to give a vigorous lead in the development of the new national transcontinental economy and in matters relating to that development there was to be no doubt, such as had recently arisen in the United States, about its authority.

There were some among the Fathers of Confederation who favoured a unitary state as an instrument for realizing these plans. As is well known, John A. Macdonald had a strong preference for a unitary state and Galt accepted the federal scheme with reluctance and hoped it might later coalesce into a legislative union.[19] But legislative union was not acceptable to the French-speaking Canadians or to the Maritime Provinces. Furthermore, municipal institutions had not yet been established in the Maritimes, and they were still in the early stages of development in Lower Canada. The centralization of all governmental powers under one government was, therefore, impracticable from an administrative point of view. The distractions of local administration might well have diverted some of the energies of the central government from its larger creative tasks. Thus, for various reasons, the builders of the new nation planned a federation comprised of a central government with authority over matters of general and common interest and provincial governments with authority over matters of local concern.

The Division of Legislative Powers

The British North America Act was the final embodiment of their scheme. The acknowledged necessity of a federal type of union was recognized by the preamble to the Act which recited the desire of the Provinces of Canada, Nova Scotia and New Brunswick "to be federally united into One Dominion". The vital core of a federal constitution is the division of legislative powers between the central authority and the component states or provinces. This division represents the compromise between the forces which make union possible and those which inhibit the formation of a closer union. It marks the limits of what can be done by common agreement and the extent to which the separate states must be permitted to differ and work out their own destinies. In sections 91 to 95 of the British North America Act, the main lines of this division were set forth.

In section 92, certain classes of subjects were enumerated and the provinces were given exclusive power to make laws in relation to matters coming within these classes of subjects. These classes included such things as the administration of justice, municipal institutions, the establishment and maintenance of prisons, hospitals, asylums and charitable institutions and control over the public lands of the province. The provinces were also given control over local works and undertakings. But an exception reserved international and inter-provincial lines of transport and communication to the Dominion and authorized the Dominion to take legislative power over any local work at any time

[19] *Speech on the Proposed Union of the British North American Provinces*, delivered at Sherbrooke on Nov. 23, 1864, p. 22.

by declaring it to be for the general advantage of Canada or for the advantage of two or more provinces. A power of direct taxation to raise revenue for provincial purposes was given, although it was thought that expanding revenues from the public lands would make it generally unnecessary for the provinces to exercise this power.[20]

The classes of subjects in section 92 included two of vague and general reference, viz., "Property and Civil Rights in the Province" and "Generally all Matters of a merely local or private Nature in the Province". Section 93 gave the provinces control over education, subject to certain clauses designed to protect the rights of Roman Catholic and Protestant religious minorities. By section 95, the Dominion and the provinces were given concurrent powers over agriculture and immigration, federal legislation to prevail in case of conflict.

The opening paragraph of section 91 gave the Dominion power "to make Laws for the Peace, Order and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces". That is to say, the residue of powers not expressly given to the provinces was reserved to the Dominion. The section then proceeded with a specific enumeration of twenty-nine classes of subjects, illustrating but not restricting the scope of the general words used earlier in the section.

This enumeration included such classes of subjects as defence, criminal law, naturalization and aliens, and the postal system. It also included regulation of trade and commerce, fisheries, banking, currency and coinage, commercial paper, weights and measures, bankruptcy and insolvency and certain other topics of primarily economic reference. It also gave the Dominion unlimited powers of taxation. The concluding paragraph of section 91 provided against these enumerated topics being "deemed to come within the Class of Matters of a local or private Nature comprised in the Enumeration of the Classes of Subjects" assigned to the provinces by section 92. An exception to section 92 gave the Dominion control over all interprovincial and international transportation and communications.

The Problem of Interpreting the Division of Legislative Powers

No amount of care in phrasing the division of powers in a federal scheme will prevent difficulty when the division comes to be applied to the variety and complexity of social relationships. The different aspects of life in a society are not insulated from one another in such a way as to make possible a mechanical application of the division of powers. There is nothing in human affairs which corresponds to the neat logical divisions found in the constitution. Therefore, attempts to exercise the powers allotted by the constitution frequently raise questions as to its meaning in relation to particular circumstances.

The British North America Act has not escaped this difficulty. Manifestly, it would be difficult for the Dominion to make any law for the "Peace, Order and good Government of Canada" without affecting, in some way, one or other of the specific subjects in relation to which the provinces were given exclusive powers. On the other hand, laws made by the provinces under the heads of jurisdiction given by section 92 would frequently have direct implications for the "Peace, Order and good Government of Canada" or would bear in some unexpected way upon the enumerated classes of subjects in section 91 over which the Dominion was given exclusive power. The implications and sometimes the express provisions of legislation would seem to cross the line which, in theory, divided the spheres of legislation assigned to the provinces and the Dominion. In a variety of circumstances, the problem of what amounted to an invasion of the field of one by the other would raise difficult questions of interpretation.

The task of interpretation was complicated by the existence, in sections 91 and 92, of several general descriptions of the ambit of legislative power given to the Dominion and the provinces which lacked a clear, legal meaning. "Peace, Order and good Government", "Regulation of Trade and Commerce", "Property and Civil Rights in the Province" do not convey precise signification. Since 1867, the Privy Council has had the last word on the meaning of the British North America Act and has laid down rules of construction for determining when section 91 was to have primacy over section 92. By a process of textual criticism, it has given some concreteness to the general phrases just mentioned. In this way, it has elucidated the legal meaning of the constitution and imparted greater certainty to the division of powers than could have existed when the Act first came into operation. This legal meaning is binding on all other courts and on the Dominion and provincial legislatures.

The British North America Act was a statute of the British Parliament and the Privy Council

[20] Speech by Galt, *Confederation Debates*, p. 68.

brought to its task of elucidation an elaborate set of rules binding on the courts in their interpretation of all statutes. These rules required the Privy Council to consider the literal meaning of the words used without any conjectures as to the intentions of those who framed the Quebec and London Resolutions. The Privy Council as a court was not free to consider historical evidence about intentions but was bound to restrict itself to a consideration of what may be called, by contrast, legal evidence—the intention actually expressed by the words used in the Act.[21] Much controversy, past and present, has centred on the question whether the intention which the Privy Council has found to be expressed in the Act accords with the actual intention of the Fathers; in short, whether we now have the constitution which they intended to give us.

Some are satisfied that the Privy Council has merely made explicit what the Fathers intended. Others dismiss the controversy on the ground that we cannot now know what they intended. Others, again, hold that the constitution today is vastly different from what its framers meant it to be and seek to support their contentions from certain historical evidence. The interpretation given by the Privy Council will be considered in later chapters. In an account of the forces behind Confederation and of the nature of the constitution established in 1867, it is important to note the historical arguments which form the basis of many current criticisms of the Privy Council.[22] For purposes of record, we summarize these arguments here but, as we shall indicate later, we do not accept them as conclusive upon certain points, some of them of considerable importance. The critics of the Privy Council do not appear to have fully substantiated their case but, at the same time, they do marshall an impressive mass of historical evidence in support of their general conclusions and their arguments cannot be dismissed as mere hypotheses. Confederation being relatively close to us in time, and the records of its achievement being relatively ample, it is argued we have no reason to assume that it is inherently impossible to determine now the intentions of the Fathers, although it may well be admitted that it is difficult to establish with conclusive finality the meaning of some of the phrases which they employed. The historical case presented by the critics of the Privy Council has not been accepted by all authorities but it merits the attention and consideration of serious students of the problem.

Historical Interpretation of the Intentions of the Fathers—arguments supporting a broad view of Dominion powers

Some historians urge that the Fathers intended to give wide, sweeping powers to the Dominion and to restrict the provinces to a narrow range of functions, in the exercise of which they were to be subject to the control and supervision of the Dominion.[24] They claim that the general phrases in section 91, "Peace, Order and good Government" and "Regulation of Trade and Commerce", to which the Privy Council has given a restricted meaning were intended to have a broad interpretation and that the general phrase, "Property and Civil Rights in the Province", in section 92, to which the Privy Council has given an extended meaning, was intended by the framers to have a much more limited interpretation.

Some of the leading figures among the framers of the federal scheme evidently intended the general government, as it was called, to have broad and far-reaching powers. John A. Macdonald explained that "all the great questions which affect the general interests of the Confederacy as a whole, are confided to the Federal Parliament".[25] Galt declared that among the subjects given to the general government would be found "all that could in any way be considered of a public and general character".[26] Lord Carnarvon, the Colonial Secretary, introducing the scheme to the House of Lords said it proposed to give to the central authority "those high functions and almost sovereign powers by which general principles and uniformity of legislation may be secured in those questions that are of common import to all the provinces".[27]

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[21] In interpreting the British North America Act, "the question is not what may be supposed to have been intended but what has been said." Lord Sankey in *Edwards* v. *Attorney General of Canada*, [1930] A.C. 124 at p. 137.

[22] *E.g.*, C. H. Cahan, *The British North America Act*, 1867, an address delivered before the Canadian Club of Toronto, September 15, 1937; *cf. Report pursuant to Resolution of the Senate to the Honourable the Speaker, by the Parliamentary Counsel relating to the Enactment of the British North America Act*, Ottawa, 1939.

[24] For historical interpretations in general supporting this view, see Appendix 2—D. G. Creighton, *British North America at Confederation;* R. G. Trotter, *Canadian Federation* (Toronto, 1934); "The Coming of Confederation," *Cambridge History of the British Empire*, Vol. VI, pp. 438-62; Chester Martin, "British Policy in Canadian Federation," *Canadian Historical Review*, Vol. XIII, pp. 3-19; W. M. Whitelaw, *The Maritimes and Canada before Confederation*, (Toronto, 1934); W. P. M. Kennedy, *Essays in Constitutional Law*, p. 85*ff;* V. C. MacDonald, "Judicial Interpretation of the Canadian Constitution", *University of Toronto Law Journal*, Vol. I, No. 2, p. 260*ff*. For careful description of the Quebec Conference see W. M. Whitelaw, "Reconstructing the Quebec Conference", *Canadian Historical Review*, Vol. XIX, pp. 123-37.

[25] *Confederation Debates*, p. 40. See also pp. 30, 33, 41.

[26] *Speech on the Proposed Union*, p. 10.

[27] Quoted by V. C. MacDonald, "Judicial Interpretations of the Canadian Constitution" (1936), *University of Toronto Law Journal*, p. 263.

Some of the opponents of the scheme criticized it on much the same grounds. A. A. Dorion claimed that it "gives all the powers to the Central Government, and reserves for the local governments the smallest possible amount of freedom of action,"[28] and J. B. E. Dorion opposed the scheme "because we are offered local parliaments which will be simply nonentities, with a mere semblance of power on questions of minor importance".[29]

Supporters of this historical interpretation urge that this view of the relative importance of the Dominion and provincial governments in the new scheme is borne out by various sections of the constitution. They point to the power of the Dominion to appoint the Lieutenant-Governors of the provinces and emphasize the fact that while the provinces were given power to amend the provincial constitutions, they were forbidden to alter in any way the office of Lieutenant-Governor. They contend that the intention to give the Dominion a dominating position is confirmed by the power to reserve and disallow provincial legislation which was given to the Dominion.

In support of this general position, they place great importance on the opening paragraph of section 91 which gave the Dominion power to make laws for the "Peace, Order and good Government of Canada" in relation to all matters not exclusively assigned to the provincial legislatures. This phrase had acquired a wide, though not very precise, significance in the legislative history of the British Empire before 1867.[30] "Peace, order and good government", and the variation, "peace, welfare and good government" were the phrases habitually used by the British colonial authorities in vesting colonial legislatures with the full range of their legislative powers.

In conferring these powers on colonial legislatures, it was not customary to enumerate specific powers; it was customary merely to grant, in one or other of these well-worn phrases, the entire measure of jurisdiction deemed compatible with imperial control. As imperial control in the internal affairs of the colonies was mainly exercised through the power of disallowance, these phrases carried complete internal legislative competence. In fact, they are the title-deeds of the legislatures of the self-governing Dominions, not again added to by imperial legislation until the Statute of Westminster. The exponents of this historical interpretation, emphasizing the breadth of Dominion powers, infer from the insertion of this phrase in section 91, that the framers must have intended its full historic meaning to prevail, saving only the powers expressly given to the provinces in section 92.

It is similarly urged that the Fathers meant an extended signification to be given to the phrase "Regulation of Trade and Commerce", in section 91. At the time of Confederation, Canada was just beginning to emerge from the commercial into the industrial age. The distinguishing feature of the commercial age was its pre-occupation with exchange, the trading of raw or crudely processed products on a world-wide scale. This required an extended organization, interprovincial and international in its scope. It was a delicate system, for its life-lines were everywhere exposed. Prosperity depended on its maintenance and its maintenance and development, in turn, depended on the sympathetic consideration, if not the positive assistance, of governments. Nothing showed this more clearly than the British imperial trading organization of the 18th and early 19th centuries. British North American statesmen had lived with this system and had seen what control over extended trading relationships by a single government could achieve. Trade and commerce, because of their nature and scope, were inevitably public matters of great import and it is argued that the phrase "the regulation of trade and commerce" had a very wide significance both historically and in the current usage of the Confederation period.*

In addition, it is contended, they must have been acutely aware of the confusion which arises when control over such matters is parcelled out among several governments. During the fifty years in which the Provinces of Upper and Lower Canada maintained their separate existence, the control of the St. Lawrence and its commerce had been divided between two distinct and independent governments. This division led to conflicts between Upper and Lower Canada and to bitter struggles between the commercial and agrarian parties in each.[31] Upper Canada had disagreed with Lower Canada and the commercial interests in Montreal had quarrelled with the leaders of the Patriot party over many economic matters of common concern to the whole St. Lawrence Valley.

The impossibility of arriving quickly at a vigorous common policy in these matters had hampered Canada in its bid for the trade of the mid-continent.

[28] *Confederation Debates*, p. 250.
[29] *Ibid.*, p. 859.
[30] C. H. Cahan, *op. cit.*

* Appendix 2—D. G. Creighton, *British North America at Confederation*, pp. 53-4.

[31] These conflicts are examined in detail in D. G. Creighton, *The Commercial Empire of the St. Lawrence. 1760-1850.*

The frustrations engendered by divided authority formed part of the living memory of public men at the time of Confederation and this appeal to history for a broad interpretation of Dominion powers argues that the Fathers, who wanted to create a robust national economy, must have intended the control of such matters to be placed in the hands of a single government.

In support of this thesis, they draw attention to the reluctance among the commercial element in Montreal to give up the Union of 1841 which had established a common government to deal with these economic matters. The confederation plan asked them to abandon this union and one of the tasks of the advocates of a wider union was to convince them that the establishment again of two provinces in the St. Lawrence Valley would not mean a return to the old confusions. John Rose assured them that they had nothing to fear because the general legislature would have control over the post office, trade, commerce, navigation:—"all the great and important interests . . . that affect the minority in Lower Canada . . .".[32] Galt reiterated that "the interests of trade and commerce . . . would be taken out of the category of local questions . . .".[33] Cartier, stating that he could understand the concern of the commercial minority of Lower Canada lest there should be a return of the old difficulties, said these fears were groundless because "it would be for the General Government to deal with our commercial matters".[34] On the basis of these statements, supporters of this historical interpretation argue that the words "Regulation of Trade and Commerce", were intended to transfer a wide range of economic matters to the control of the central authority.[35]

A historical interpretation which would magnify the scope of Dominion powers by attaching a limited special meaning to the phrase, "Property and Civil Rights in the Province" has also been urged. This phrase has had a long history in British North America, rising out of the relationships of French and English in the valley of the St. Lawrence. British statesmanship sought a solution of this racial problem which would preserve to French Canada the institutions which were vital to its way of life. The Quebec Act of 1774 secured "His Majesty's Canadian subjects within the Province of Quebec" in the enjoyment of their property and civil rights and provided that "in all matters of controversy relative to property and civil rights, resort shall be had to the laws of Canada as the rule for the decision of the same".

In the constitutional and legislative enactments of both Upper and Lower Canada, there were a number of references to the law "relating to property and civil rights". In these references, the phrase was used to signify either the common law of England or the French customary law. That is to say, it denoted the set of laws and customs which were at once the expression and support of the distinctive ways of life of the French-speaking and English-speaking Canadians. The phrase found its way into sections 92 and 94 of the British North America Act.

Supporters of a broad view of federal power argue that the sole purpose of introducing the phrase "Property and Civil Rights in the Province" into section 92 was to protect the unique institutions and ways of life of the Province of Quebec. They lay strong emphasis on section 94 which contemplates certain conditions under which the federal authority may secure unrestricted power to make uniform laws "relative to Property and Civil Rights in Ontario, Nova Scotia and New Brunswick". To them, this section suggests that the phrase had reference only to matters on which these three provinces were in fundamental agreement and that regional differences of interest were not involved. Ontario, Nova Scotia and New Brunswick, with their acceptance of the English common law, were in agreement on precisely those matters in which each differed so completely from Quebec. Thus it is argued that the inclusion of this phrase in section 92 was not designed to express genuinely local as against national interests nor to fix the spheres of the different levels of government but rather to protect regional interests only in so far as they were specifically cultural in character.

This historical interpretation, therefore, maintains that the phrase, "Property and Civil Rights in the Province", as used in section 92, was intended to cover only what was necessary for this limited but important purpose of safeguarding the cultural autonomy of Quebec. It appeals to statements of British officials prior to the passing of the Quebec Act of 1774 and to the instructions of the British Government to the Governors of Quebec after 1774 as showing what were long understood to be the essential laws for safeguarding the fundamental institutions and ways of life of Quebec. These instructions to the Governors repeatedly

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[32] *Confederation Debates*, p. 409.

[33] *Speech on the Proposed Union*, p. 20.

[34] *Confederation Debates*, p. 61.

[35] See Appendix 2—D. G. Creighton, *British North America at Confederation*, pp. 50-52.

commanded that the Canadians were to enjoy the "benefit and use of their own Laws, Usages and Customs in all Controversies respecting Titles of Land, and the Tenure, Descent . . . of Real Estates, and the distribution of the personal property of Persons dying intestate . . .".[36] Accordingly, the phrase in question would include matters of civil law concerning the relations of citizen and citizen, such as ownership, transfer and various dealings in property, inheritance and succession by will, rights arising from personal status, such as minority and capacity to make contracts, and from the intimate domestic relations of the family. It would include a variety of other matters of private law but it would not include a number of matters inextricably bound up with the public law such as nation-wide regulation of industry and trade. Still less could it include social insurance which had formed no part of either French or English law and the idea of which was unknown to those who framed the British North America Act. In this way, it is sought to infer from historical evidence an intention to give the phrase "Property and Civil Rights in the Province" a much more restricted meaning than that given to it by the Privy Council.

Historical Interpretation of the Intentions of the Fathers—arguments supporting a broad view of provincial powers

These historical arguments as to the intentions of the Fathers of Confederation and the meaning assigned by them to general phrases such as "Peace, Order and good Government", "Regulation of Trade and Commerce" and "Property and Civil Rights in the Province" have not gone without challenge on historical grounds.[37] For example, it is urged that the expression "property and civil rights" has always had a very wide meaning in our constitutional history.

By Royal Edict in 1663, Louis XIV of France created a Sovereign Council at Quebec giving it the power "de connaître de toutes causes civiles et criminelles, pour juger souverainement et en dernier ressort selon les lois et ordonnances de notre royaume",[38] thus, it is claimed, establishing in Quebec the entire French law which ruled New France at the time of the conquest.

The Royal Proclamation of George III of England in October, 1763, which proposed to introduce the English common law into the conquered territory in North America was naturally resented as a grave injustice by the people of Quebec. The Quebec Act of 1774 which was passed to meet this grievance, repealed the proclamation of October, 1763. Section 8 of the Act declared that "His Majesty's Canadian Subjects, within the province of Quebec . . . may also hold and enjoy their Property and Possessions, together with all Customs and Usages relative thereto, and all other their Civil Rights, in as large, ample, and beneficial Manner, as if the said Proclamation . . . had not been made" and then continued to provide, as quoted above, that the laws of Canada should provide the rule of decision in controversies "relative to Property and Civil Rights". This section of the Quebec Act has never been repealed.

The French law in its entirety was in force in New France at the time of the conquest and the people of Quebec desired to retain it. This was the ground of their objection to the Proclamation of 1763 and the Quebec Act was passed to meet this grievance. On the basis of these facts, it is argued that the Quebec Act was intended to meet the grievance fully and that the expression, "Property and Civil Rights", as used in the Act, was intended to comprise the entire French civil law and not merely certain selected portions of it. The only thing which is important for understanding the scope of the Act is the purpose for which it was passed. The statements of British officials and the instructions of the British Government to colonial governors merely reveal their opinions. They do not give clues to the meaning of phrases used in the Quebec Act.

This argument attributes a very wide meaning to the expression "Property and Civil Rights" as used in the Quebec Act, and holds that when used in later statutes, the expression bears the same extended meaning unless an express limitation is introduced. No express limitation on the meaning of the phrase occurs in the British North America Act and therefore it is concluded that the broad meaning given to it by the Privy Council is in accordance with its original historical meaning.[41]

[36] W. P. M. Kennedy, *Statutes, Treaties and Documents*, p. 156.

[37] P. B. Mignault (formerly Mr. Justice Mignault of the Supreme Court of Canada), "Nos Problèmes Constitutionnels" (1928), 16 *Revue du Droit*, p. 577; V. Evan Gray, "The O'Connor Report on the British North America Act" (1939), 17 *Canadian Bar Review*, 309.

[38] "to deal with all civil and criminal cases, to judge finally and in the last resort according to the laws and ordinances of our kingdom".

[41] For this argument, see P. B. Mignault, *op. cit.*

The Limitations of the Historical Arguments

All the historical interpretations go far afield for their arguments. There is no final certainty as to what the framers meant by the use of these phrases. The records of the time have not preserved all their opinions on all points. Clear statements of the views of some on particular points have come down to us; of the views of others, nothing is known.[42]

All that is certainly known is that the framers had large plans for the new Dominion and they proposed a strong central government with ample financial powers to carry the program through. The financial settlement which gave the Dominion the unrestricted taxing power, and the exclusive use of the most important revenue sources of the time (nearly four-fifths of the former provincial revenues were given to the new Dominion Government) is the most significant evidence of the leading role cast for the new Federal Government and of the responsibilities which it was expected to assume. In the provisions for reservation and disallowance of provincial legislation, the Fathers gave the Dominion legal power to supervise and control the legislatures of the provinces. At the same time, it was agreed that the state should be federal with exclusive spheres of power reserved to both the provinces and the Dominion. But the exact meanings intended to be given to the general words used in outlining these exclusive spheres of legislative power remain a matter for speculation.

There is no doubt that some of the framers had wanted a legislative union. Those who expected to be members of the new Federal Government naturally wanted a large stage on which to exhibit their capacity as statesmen.[43] But whatever their intentions, they could not overcome the limitations imposed by physical conditions. They could not ignore the social forces rooted in the history of the colonies any more than they could presume to bind the future indefinitely to the past.

There is a further limitation inherent in all historical interpretation of political constitutions which are to govern the distant future. The framers of the constitution could not foresee the revolutionary economic and social changes that have since taken place and therefore could have no intention at all concerning them. Whatever powers Confederation was intended to confer on the Dominion, these intentions cannot provide answers for many of the questions which agitate us now for the simple reason that the conditions out of which present difficulties arise were not even remotely considered as possibilities. The intentions of the founders cannot, except by chance, provide solutions for problems of which they never dreamed.

4. Public Finance at Confederation

The Sphere of Government in 1867

The character of a public finance system depends on what governments are expected to do. What governments are expected to do depends on the prevalent political opinion and stage of development of the economy of the time. The statesmen of Confederation did not anticipate any radical change in the functions of government, but the adoption of a federal union required an allocation of responsibilities and sources of revenue between the Dominion and the provinces. In making a financial settlement and in fixing the future financial relationships of the provinces with the new Federal Government, they assumed that the sphere of governmental action would remain essentially what it had been in the past. Therefore, they were primarily concerned to transfer to the Federal Government the responsibilities and the financial resources which would enable it to carry out the political and economic objectives of the union.

Since 1867, there have been sweeping economic and social changes and no less important changes in opinion as to the appropriate functions of government, none of which could have been anticipated at the time. It is necessary to recall the social conditions of the day and the limited scope of government activities in order to appreciate the financial arrangements with which the federation was equipped and to realize that the division of responsibilities and revenue sources which was made at Confederation contemplated a much smaller sphere of government activities than exists today. The manner of life in British North America has already been briefly outlined. It will suffice to recall here the scattered rural character of the population, the decentralization of industry in small towns and villages, the self-sufficiency of families and communities, the impressive solidarity of the family, and the open frontier

[42] The agreement reached by delegates to the Quebec Conference is acknowledged to have been a compromise and it is unlikely that the delegates, in the subsequent discussions, always distinguished clearly between the compromise and their own conception of what Confederation should have been. For a clear statement of the difficulties attending historical interpretation, see V. Evan Gray, "The O'Connor Report on the British North America Act", (1939), 17 *Canadian Bar Review,* 309 at pp. 315-8.

[43] John A. Macdonald probably had the possibility of a great future in mind when he said, "We are all mere petty provincial politicians at present; perhaps by and by some of us will rise to the level of national statesmen." Quoted by A. R. M. Lower in "Sir John A. Macdonald", (1939), 19 *Dalhousie Review,* p. 86.

of the continent which afforded individuals a variety of means of adjustment to economic crises. While economic conditions did not offer great material prosperity to the many, they provided a modest security for the frugal and industrious and an almost frictionless adjustment to business fluctuations without any intervention by governments.

The role which governments were called upon to play was one peculiar to the conditions of the time. An individualistic outlook, which relies on the family as the unit of mutual welfare, is nourished in a pioneer society and people readily agree that governmental action should be confined to the narrowest possible limits.[45] Accordingly, the principal functions of the state followed the prescription of Adam Smith. Government was thought to have met its purpose when it provided for adequate defence, the enforcement of the general law through the equal administration of justice and the maintenance of a few essential public works. Within this framework of order provided by public authority, individuals were expected to work out their own destiny unrestrained and unassisted by governments. There was a general conviction, widely confirmed by contemporary example, that Providence helps those who help themselves.

British North American governments did not concern themselves with regulation of the daily pursuits of the people. Nor did they assume any significant responsibility for social welfare. They took seriously their responsibilities for maintaining defence and internal order but they carried them out with frugal care. Thus far their interpretation of the doctrine of laissez faire was in harmony with current British precept and example.

But the application of the doctrine was modified by certain conditions peculiar to the colonies. The United States and all European countries at the time had incurred huge burdens for defence. European governments were spending as much as half of their current revenues on military purposes, and the United States had just emerged from a costly civil war. The colonies, relying on Great Britain, escaped most of the costs of military and naval defence. Had they been able to stop at this point, their burden of public expenditures would have been extremely low. However, release from expenditures on defence gave them resources for other tasks and all the colonies took on heavy commitments in aiding economic development.

Pioneer communities in North America were always hampered in realizing their dreams of progress by the tremendous difficulties of transport and communications. The scarcity of capital and the scattered nature of settlement added to the difficulties. As a result, the task of securing the provision of community equipment such as canals, harbours, roads, bridges and railways was saddled on government. Of all the agencies of the community, it had the broadest command of means. Until this equipment was provided, development was slow and individuals could not reap the rich promise of a new country. The colonial interpretation of laissez faire did not forbid strenuous government activity for developmental purposes.[46] The state was required, by general consensus, to help people to help themselves.

The Burden of Debts incurred for Development—the necessity for centralization of finance

The urgent demand for transportation facilities had played havoc with the otherwise careful public finances of the colonies. In particular, the Province of Canada had gambled heavily in developing the St. Lawrence route as a means of tapping the trade of the Middle West. The coming of the railways, with their fabulous promise, intensified this concentration of public finance on development. Canada put in another expensive bid for commercial greatness by extensive railway loans. The Maritimes were stirred to link themselves to the continent behind them and the governments undertook ambitious railway programs as public works. By the eve of Confederation, transportation had overshadowed everything else in the budgets of the colonies and had seriously strained the public finance systems of Canada, New Brunswick and Nova Scotia.

[45] In the sixties of the last century, the philosophy of laissez faire was at the height of its influence upon public policy throughout the world.

[46] Appendix 2—D. G. Creighton, *British North America at Confederation*, pp. 67-70.

TABLE 2.—DEBTS OF THE B.N.A. PROVINCES ON THE EVE OF CONFEDERATION[a]

(Millions of Dollars)

—	Canada June 30, 1867	New Brunswick June 30, 1867	Nova Scotia June 30, 1867	Prince Edward Island June 30, 1873	British Columbia Dec. 31, 1869	Total
Gross Debt	79·8	7·9	9·3	4·1	1·5	102·6
Less Cash, Marketable Investments, Sinking Funds, etc.	5·4	0·1	0·3	0·2	0·4	6·4
Net Debt	74·4	7·8	9·0	3·9	1·1[c]	96·2
Net Debt accounted for as follows:						
Railways—Direct Investments and Loans	33·3[d]	4·5	6·3	1·2	—	45·3
Commitments *re* construction of Railways	—	1·9	1·0	2·0	—	4·9
Canals	18·7	—	—	—	—	18·7
Sub-total	52·0	6·4	7·3	3·2	—	68·9
Loans and Investments on which partial or no Interest was paid	14·7	0·2	—	—	—	14·9
Other Public Works	9·8	[b]	[b]	[b]	—	9·8
Other Commitments	13·0	—	—	—	—	13·0
Deficit or Surplus (+)	15·1+	1·2	1·7	0·7	—	11·5+
Sub-total	22·4	1·4	1·7	0·7	1·1[c]	27·3
Total Net Debt	74·4	7·8	9·0	3·9	1·1[c]	96·2

[a] Compiled from the Public Accounts of the B.N.A. Provinces.

[b] In the Maritime Provinces, roads, bridges, lighthouses, harbour improvements and other public works were charged to current account.

[c] Approximate.

[d] Including unpaid interest of $13·1 million.

Fully three-fourths of the total debt of the British North American Provinces had been incurred for transportation.[47] Most of it had been piled up rapidly after 1850 and while it was represented by much new and valuable community equipment, it was not directly productive from the point of view of public finance. The Canadian canals had failed dismally as an attempt to tap the Middle West and most of the Canadian railways were in financial trouble soon after they were completed. The Government of Canada had assisted them with large loans which quickly fell into default.[48] In the Maritimes, practically the entire provincial debts had been incurred on publicly-owned railways, the interest charges on which had to be met by the governments out of general taxation. In 1866, the service of the provincial debt absorbed 21 per cent of the current revenues of Nova Scotia, 28 per cent of those of New Brunswick and 30 per cent of those of Canada.

These dead-weight debts, which had accumulated so rapidly, seriously endangered the credit of the provinces in the London money market. They resulted in repeated budget deficits and it became increasingly difficult to secure loans at rates the provinces could hope to bear. Deficits had driven home the necessity for the union of Vancouver Island with the mainland and the infant Province of British Columbia was struggling with a public debt which amounted to over $100 per white inhabitant.[49] The situation was only less severe in the other provinces. They were being obliged to fall back on temporary loans from local banks and from English banking houses.[50] All the

[47] Of the Province of Canada's net debt of $74 million, over $18 million had gone into the canal system and $33 million into loans to railways. In addition, the Province had shouldered municipal obligations (which, with arrears of interest, amounted to $14 million) arising mainly out of rash municipal support of railway development. The Maritime Provinces had a direct investment in publicly owned railways of $11 million. With the exception of a small amount in Nova Scotia, the capital commitments of the Maritime Governments consisted exclusively of obligations contracted for roads and railways.

[48] $13 million out of the total loans to railways of $33 million consisted of unpaid interest.

[49] Howay, *British Columbia, The Making of a Province*, p. 163.

[50] In 1866, Canada was paying 8 per cent interest on one of these temporary advances.

provincial governments had overplayed their roles of promoting development.[51] They were seriously embarrassed in carrying their existing obligations and their separate public finance systems could not hope to undertake new burdens. Yet there was a powerful demand for new and greater developmental projects. These could not be achieved without the centralization of finance.

Public Expenditures before Confederation—the importance of development

The restricted role of governments and the nature of public functions in the society of British North America are most clearly demonstrated by the magnitude and distribution of the government expenditures. The figures are relatively insignificant when compared with those of today. In 1866 less than one-twentieth of the income of the population flowed through government channels and the total public expenditures amounted to less than $6 per capita.[52] The major factor in this striking contrast with the present time was the relative unimportance of the cost of education and public welfare; less than 14 per cent of the total expenditures were devoted to these services in 1866. The elemental responsibilities of government (i.e., the administration of justice, legislation and general administration), were conducted with frugality. The cost of defence which had been assumed by the Imperial authorities left no heavy burden on the colonies. All the traditional functions of government absorbed less than 40 per cent of the total outlay. The remainder of the expenditures (including debt charges), which comprised nearly one-half of the total were devoted to development. This purpose dominated the public finance of the provinces.

TABLE 3.—EXPENDITURES ON CURRENT ACCOUNT—FISCAL YEARS ENDED 1866[a]

(Thousands of Dollars)

—	Province of Canada		Nova Scotia		New Brunswick		Total
	Provincial	Municipal [b]	Provincial	Municipal [e]	Provincial	Municipal [e]	
Development:							
Net Debt Charges [d]	3,214	1,400	306	40	349	50	5,359
Transportation, including roads and bridges	952	950[e]	490	20[e]	213	25[e]	2,650
Public Domain and Agriculture	256	—	85	—	16	—	357
Sub-total	4,422	2,350	881	60	578	75	8,366
Traditional Functions:							
Justice, legislation and general government	3,235	1,850	351	65	217	60	5,778
National Defence	1,641	—	145	—	151	—	1,937
Sub-total	4,876	1,850	496	65	368	60	7,715
Welfare and Education:							
Public Welfare	340	300	101	10	44	10	805
Education	583	900	156	35	116	30	1,820
Sub-total	923	1,200	257	45	160	40	2,625
Miscellaneous	350	—	36	—	58	—	444
Total	10,571	5,400	1,670	170	1,164	175	19,150

[a] Compiled from the Public Accounts of the B.N.A. Provinces.
[b] Estimates based on Municipal Returns for Upper and Lower Canada, *Sessional Papers* (1867-8) No. 7.
[e] Estimated.
[d] Gross interest charges less interest received.
[e] Excluding value of statute labour.

[51] This was not true of Prince Edward Island in 1866, but by 1873, that Province had also incurred paralyzing debts in aid of railway construction.

[52] In 1937, total government expenditures in Canada amounted to $90 per capita and were equal to one-fourth of the national income.

There were no marked differences in the total government expenditures of the three provinces. The current expenditures of the provincial governments in the Maritime Provinces on roads, education and public welfare were significantly higher than those of Canada. This was mainly due to the fact, that in the Maritimes, municipal institutions did not exist outside the principal cities and public expenditures on roads and bridges, education and public welfare became items in the current expenditures of the provincial governments. On the other hand, the existence of more fully developed municipal institutions in Canada, particularly in Upper Canada, upon which a great part of the burden of maintaining roads and supporting education and public welfare had been placed, resulted in a corresponding reduction of provincial expenditures on these items.

The Maritime Provinces relied almost entirely on a simple customs tariff of a revenue nature and made practically no attempt to levy excise at all.[53] As Table 4 indicates, each of them derived 80 per cent or more of its revenues from this source in 1866. The taxation system in Canada was somewhat more advanced. In 1866, customs duties provided 66 per cent of the provincial revenue while 17 per cent was derived from excise. With a more diversified economy, Canada did not import so wide a range of articles of general consumption. Local production had developed in many lines and there were considerable elements of protection in a tariff which ranged around 20 per cent on articles of general consumption.

In both Canada and the Maritimes, the customs rates were considerably higher on luxury items.

TABLE 4.—REVENUE—CURRENT ACCOUNT—FISCAL YEARS ENDED 1866[a]

(Thousands of Dollars)

—	Province of Canada		Nova Scotia		New Brunswick		Total
	Provincial	Municipal [b]	Provincial	Municipal [c]	Provincial	Municipal [c]	
Taxes:							
Customs	7,328	—	1,226	—	1,037	—	9,591
Excise	1,889	—	6	—	—	—	1,895
Realty	—	3,800	—	120	—	125	4,045
Other	107	700	—	10	—	10	827
Sub-total	9,324	4,500	1,232	130	1,037	135	16,358
Licences, Permits, Fees, etc	281	500	7	30	9	30	857
Public Domain	903	—	129	—	108	—	1,140
Sales of Commodities and Services	509	—	84	—	93	—	686
All Other	35	400	18	10	7	10	480
Total	11,052	5,400	1,470	170	1,254	175	19,521

[a] Compiled from the Public Accounts of the B.N.A. Provinces.
[b] Estimates based on Municipal Returns for Upper and Lower Canada, *Sessional Papers* (1867-8) No. 7.
[c] Estimated.

The Principal Sources of Public Revenue—the dependence upon customs duties

The revenue systems of the three provinces were markedly similar and chiefly notable for their simplicity. The provinces relied almost entirely on indirect taxation with scarcely any effort to impose direct taxation. They did not have any elaborate tax machinery for the nature of the economy and its modes of distributing income made it useless to attempt a more complex system of taxation. Hence their principal revenues were derived from customs duties and excise which lent themselves easily to assessment, collection and enforcement.

However, the simple, frugal society of the time did not consume any great quantity of the heavily taxed luxuries and the gradations of the tariff rates did not provide any significant measure of progressive taxation. The duties on articles of general consumption produced the great bulk of the revenues of the provincial governments. Table 5 shows the per capita burden of the principal taxes in the three provinces and reveals the complete dependence on these indirect taxes.

[53] The import duties on commodities of general consumption ranged around 10 per cent in Nova Scotia and 15 per cent in New Brunswick.

TABLE 5.—PER CAPITA CURRENT REVENUES, FISCAL YEARS ENDED 1866

(Dollars)

—	Province of Canada		Nova Scotia		New Brunswick	
	Provincial	Municipal	Provincial	Municipal	Provincial	Municipal
Customs	2·77	—	3·37	—	3·83	—
Excise	0·71	—	0·02	—	—	—
Realty	—	1·44	—	0·33	—	0·46
Licences, Permits, Fees, etc.	0·11	0·19	0·02	0·08	0·03	0·11
Public Domain	0·34	—	0·35	—	0·40	—
All Other	0·25	0·41	0·28	0·06	0·37	0·07
Total	4·17	2·04	4·04	0·47	4·63	0·64
Combined Provinces and Municipalities.	6·21		4·51		5·27	

Except for two or three leading cities, municipal organization was virtually non-existent in the Maritimes. Thus the income from import duties carried the burden of practically all local expenditures as well. In Canada East, municipal development was well under way but it was still considerably behind that of Canada West. In the Province of Canada the revenues of the fully organized municipal system were nearly equal to half the total revenues of the provincial government. Municipal institutions had enabled the provincial government to transfer very substantial responsibilities from its own shoulders without materially cutting down its own sources of revenue. Thus Canada could face the difficult and rather unpredictable adjustments of a major change with more equanimity than could the Maritimes.

This was the public finance structure which the architects of Confederation had to remodel to suit their new purposes. It included large debts incurred almost entirely for public works such as canals, harbours and railways as well as heavy current expenditures for developmental purposes. The traditional functions of government absorbed a substantial part of the revenues but only very modest sums were allotted to education and public welfare. Apart from the direct taxes levied by the municipalities of Canada, these various burdens were almost entirely supported by indirect taxation consisting of customs duties and excise. These debts and functions of government and these sources of revenue were now to be allotted between the provinces and the new Dominion.

The Division of Responsibilities and Revenues under the British North America Act

The new financial settlement was in part determined by the legacy of debts and the character of the economy. It was guided by the prevailing philosophy of the functions of government and the fiscal experience of the past. But within these conditions, the actual shape of the revised system of public finance was dictated by the purposes which the new political structure was designed to serve. In the future, the Federal Government was to provide for defence and have jurisdiction over interprovincial communications. It was required to build the Intercolonial railway; expected to deepen and improve the canal system of the St. Lawrence; pledged to open up communication with the West; in short, it was to take the major responsibility for national security and national development. The transfer of these costly functions would greatly reduce the burdens on the provincial governments.

Because the Dominion was to assume the responsibility for development, the massive community equipment and assets of the provinces, which could be adapted to its purpose, were to come under Dominion control and it was to assume the debts which the provinces had incurred in acquiring them. Harbours, lighthouses, steamboats, canals and railways were to be brought within its jurisdiction and where owned by the provinces, to become the common property of the Dominion. With minor exceptions, the public debts of the provinces were completely assumed by the Dominion. This is indicated in detail in Table 5A on the following page.

TABLE 5A.—PROVINCIAL ASSETS AND LIABILITIES ASSUMED BY DOMINION AT CONFEDERATION

(Thousands of Dollars)

—	Province of Canada	New Brunswick	Nova Scotia	Total Assets and Liabilities assumed by Dominion July 1, 1867	British Columbia July 20, 1871	Prince Edward Island July 1, 1873	Total Assets and Liabilities assumed by Dominion
Debt assumed by Dominion:							
Direct Debt	59,621	5,146	6,062	70,829	1,168	1,688	73,685
Guaranteed Debt	150	—	—	150	—	—	150
Savings Bank Deposits	—	777	645	1,422	—	250	1,672
Treasury Notes in Circulation	3,114	—	606	3,720	—	[a]	3,720
Temporary Loans	3,097	108	342	3,547	310	—	3,857
Capital Liabilities	8,212	1,869[b]	975[d]	11,056	—	2,021[f]	13,077
Current Liabilities	21	—	404	425	10	140	575
Trust Funds	1,945	—	—	1,945	—	—	1,945
Gross Debt assumed by Dominion	76,160	7,900	9,034	93,094	1,488	4,099	98,681
Assets taken by Dominion as Offsets to Debt:							
Cash	1,461	20	303	1,784	42	—	1,826
Sinking Funds	1,889	—	—	1,889	442	—	2,331
Assets *re* Guaranteed Debt	37	—	—	37	—	—	37
Investments	390	87	—	477	—	—	477
Current Assets	321	—	—	321	4	—	325
Total Assets taken by Dominion as Offsets to Debt	4,098	107	303	4,508	488	—	4,996
Net Debt Assumed by the Dominion	72,062[a]	7,793	8,731	88,586	1,000	4,099	93,685
Debt Allowance as per B.N.A. Act	62,500	7,000	8,000	77,500	1,666	4,701	83,867
Assets transferred to Dominion:							
Investments	607	—	—	607	—	—	607
Loans, Advances, etc., excluding railways, on which partial or no interest was paid	1,150	240	—	1,390	—	—	1,390
Public Works and Loans to Railways:							
Railways—Direct Investments and Loans	33,256[g]	4,514	6,123	43,893	—	1,213	45,106
Canals and Harbour Improvements	21,296	[c]	[c]	21,296	[c]	[c]	21,296
Roads and Bridges	1,703	[c]	[c]	1,703	[c]	[c]	1,703
Public Buildings and Miscellaneous Works	4,607	[c]	[c]	4,607	[c]	[c]	4,607
Total Public Works and Loans to Railways	60,862	4,514	6,123	71,499	—	1,213	72,712
Current Assets	144	—	—	144	—	—	144
Total Assets transferred to Dominion	62,763	4,754	6,123	73,640	—	1,213	74,853

[a] Subsequent adjustments, due largely to capitalization of annuities, increased the net debt of the Province of Canada to $73,006,088.84 at June 30, 1872.

[b] Commitments for subsidies to railways in the course of construction. At June 30, 1868, $465,764.57 had been paid on this account.

[c] Light Houses, Harbour Improvements, Roads and Bridges and other public works were transferred to the Dominion but as they were charged originally to current revenue, they do not appear in the statement of assets.

[d] Except for $21,437.47 for provincial pensions capitalized, this comprises commitments for subsidies to the Windsor and Annapolis Railway.

[e] Treasury Notes in circulation on June 30, 1873, amounting to $37,311.10, were called for cancellation by the Province.

[f] Balance due on commitments for construction of the Prince Edward Island Railway.

[g] Loans and unpaid interest, Grand Trunk Railway, Great Western Railway and the Northern Railway. Unpaid interest amounted to $13,060,000.

Debt allowances, in round sums but calculated roughly on an equal per capita basis, were allotted to all provinces; it was provided that provinces whose actual debt fell below the allowance should receive interest at 5 per cent per annum from the Dominion on the difference, and the provinces whose debts exceeded the debt allowance should pay interest on the excess at the same rate.

The magnitude of the burdens, actual and prospective, which were being transferred to the Dominion, called for commensurate fiscal resources and powers. Therefore, it is not surprising that many of the Fathers spoke as if all the significant powers of taxation were to be given to the Dominion. At Sherbrooke, Galt declared, as if speaking of an undivided power, that "the power of taxation had been confided to the General Legislature".[55] Both the Quebec and London Resolutions stated that subsidies were to be paid to the provincial governments "in consideration of the transfer to the General Parliament of the powers of taxation".[56] Although it was expected at the

[55] *Speech on the Proposed Union*, p. 11.

[56] Quebec Resolutions No. 64; London Resolutions No. 62.

time that the Federal Government would rely upon the accepted and well-tried devices of indirect taxation, such as customs and excise, for raising the necessary revenues, the possibility that unforeseen circumstances might compel it to extend its levies to direct taxation as well persuaded the framers to give the Dominion unlimited powers of taxation.

National security, national development and the fostering of trade and commerce by appropriate regulation were regarded by the Fathers as the great functions of government. They were also the functions which they thought likely to expand in the future. When these had been transferred to the Federal Government, the provinces were left with functions, the burden of which was not expected to grow. They would be required to support a civil government establishment; to maintain a number of local public works and to undertake the administration of justice. But the heaviest duties of civil government and the onerous burden of the great public works would be lifted from their shoulders. The support of education was to come within their sphere and their control over "Generally all Matters of merely local or private Nature in the Province" and over "the Establishment, Maintenance and Management of Hospitals, Asylums, Charities and Eleemosynary Institutions in and for the Province" implied responsibility for social welfare problems which got beyond the resources of charitable and municipal organization.

Of the functions remaining to the provinces, the support of education bulked the largest financially. It took the form of financial assistance and did not require extensive administrative machinery. Moreover, the assistance was of a modest character. The nature of the economy explains the small per capita expenditure on education. In the self-sufficient rural or village society of the time, education in a broad sense was obtained without much benefit of formal schooling. There was a farm and fishing apprenticeship in fact as well as a craft apprenticeship, none of which involved the expenditure of public funds. Schooling was not compulsory. The professions afforded few openings and parents wishing to prepare their children for such opportunities were expected to pay for their education at private schools.[57] The technical complexity of our society in more recent times, which has revolutionized educational methods and costs lay far ahead and unforeseen.

Provincial payments for public welfare were even smaller than those for education ranging in 1866 from 6 per cent of total current expenditures in Nova Scotia to 3 per cent in Canada, the latter percentage indicating that a considerable share of this burden had been unloaded on the municipalities. In fact, most of the provincial expenditures on public welfare took the form of assistance to municipal institutions and private charities.

New Brunswick alone of the provinces had established a permanent board of public health in 1866. When the cholera epidemic startled Canada into establishing a temporary central board of health in 1849, there was considerable objection to assisting private misfortune out of the general public funds.[58] This spirit was still dominant in matters relating to public welfare. All provinces were contributing to the care of the insane but the amounts were small. The poor and the disabled, the aged and the orphans, were left to the care of municipal and private organizations, assisted, if at all, by small government grants.

The self-sufficiency and solidarity of the family carried a great deal of this burden of providing social security for the unfortunate. Periodic unemployment generally meant no more than a temporary retreat to the family homestead. There was nothing in the experience of the Fathers to suggest serious defects in this pattern of social security. Indeed, there was a disposition to speak hopefully of a time when private charity would relieve the governments of their existing commitments for public welfare.[59] Personal responsibility was the ideal of the time and many looked forward to a society where it would be perfectly realized.

The functions which were left to the provinces were important but their cost was not large. The minor financial role which was conceived for the provinces in the federation is emphasized by the frequent equation of them to great municipalities. Galt, in his speech at Sherbrooke declared that the local legislatures would be "municipalities of a larger growth"[60] and members of the Canadian legislature from Upper Canada frequently spoke of them in the Confederation debates as "local municipal parliaments" and as "large municipal deliberative bodies".[61] Tupper, at the Quebec Conference, said it was proposed "to preserve the Local Governments in the Lower Provinces because

[57] Some grants were made to colleges but they were insignificant in amount.

[58] *Canadian Public Health Journal*, 1929, p. 140.

[59] *Speech on the Proposed Union*, p. 15.

[60] *Ibid.*, p. 15.

[61] Appendix 2—D. G. Creighton, *British North America at Confederation*, p. 83. See also p. 79.

we have not municipal institutions".[62] In the Prince Edward Island Assembly, George Coles complained that "in this House, scarcely anything should be left for us to do, but to legislate dog taxes, and the running at large of swine".[63] There was repeated reference to "how insignificant are the matters, agreed . . . to be left to the Local Governments".[64]

The calculations of the amounts required for the operation of the provincial governments after Confederation on which the financial settlement was based show the extent to which functions were to be transferred. Tupper estimated that Nova Scotia, which had had an outlay in 1863 of over a million dollars, would be able to meet her responsibilities after Confederation with $370,000. Similarly, the New Brunswick delegates to the Quebec Conference undertook to perform the local services for $353,000 after Confederation, in comparison with an expenditure of $885,000 in 1863. Canada had spent almost $11 million in 1863 and the new Provinces of Ontario and Quebec were expected to reduce their annual expenditures to a combined total of something over $2 million.[65]

The Federal Government was to assume virtually all the provincial debts and the large expanding functions of government. With greatly reduced responsibilities, the provinces could have no need for access to the great sources of revenue of the day. Accordingly, section 92 limited the provinces to direct taxation within the province. The provinces were given the public domain with its incidental revenues and a power to impose a variety of licences and fees. These were the sources from which the provinces were expected to finance their activities. The customs duties and excise taxes which provided the great bulk of the revenues were reserved exclusively to the Federal Government.

Table 6.—Percentage Distribution of Combined Provincial and Municipal Revenues—Fiscal Years Ended 1866

—	Province of Canada	Nova Scotia	New Brunswick	Total
Taxes:				
Customs	45	75	72	49
Excise	11	—	—	10
Realty	23	7	9	21
Other	5	1	1	4
Sub-total	84	83	82	84
Licences, Permits, Fees, etc.	5	2	3	4
Public Domain	5	8	7	6
All Other [a]	6	7	8	6
Total	100	100	100	100

[a] Revenue from post office and from sales of other commodities and services are excluded. These are offset by corresponding expenditures.

Revenues Left to Provinces Fall Short of Requirements—gulf bridged by federal subsidies

The transfer of customs and excise to the Dominion left the provincial governments with less than one-fifth of their former revenues. Modest as were the responsibilities they retained, these revenues fell considerably short of meeting them. They were given the power to levy direct taxes but the discussions of the Confederation period indicate that the provincial governments were not expected to use it.[66] Direct taxes were extremely unpopular; they had never been levied by the provinces, and, as already pointed out, the nature of the economy made the administration of direct taxation except by municipalities very difficult.

In these circumstances, the Fathers felt obliged to seek other means of meeting the prospective deficits of the provinces. The task was complicated by the fact that the deficiencies were much more serious in some provinces than in others. The relatively mature municipal system in the Province of Canada carried a large share of what would otherwise have been provincial responsibilities. Practically all the municipal revenues were raised by a direct property tax. In 1866, the municipalities of Canada collected nearly a third of the total provincial and municipal revenues. The surrender of customs and excise to the Dominion and the provincial power of direct taxation left this municipal revenue system intact. In the

[62] Pope, *Confederation Documents*, p. 85.

[63] P.E.I. *Assembly Debates*, 1865, pp. 65-7.

[64] George Brown, at the Quebec Conference. See Pope, *Confederation Documents*, p. 77.

[65] The figures for the three provinces are those given by Galt in his Sherbrooke address.

[66] "It was expected and intended, and for a full generation it was a fact, that the federal subsidies and revenues of the public domain would provide a sufficient revenue for the provinces." Ex. 297, Brief of Ont., p. 15.

Maritimes, on the other hand, municipal development had scarcely begun and public expenditures in the localities were being financed largely out of general taxation—from customs revenues which yielded considerably more per capita than in the Province of Canada and which would be handed over to the Dominion at Confederation.[68] Thus prospective deficiency of provincial revenues under the settlement varied inversely with the degree of municipal development. While Ontario and Quebec were to retain, between them, almost half of the total provincial-municipal revenues collected in the old Province of Canada,[69] Nova Scotia and New Brunswick were to retain only about one-fourth.

TABLE 7.—DEFICIENCY OF PROVINCIAL REVENUES AFTER CONFEDERATION AS ESTIMATED BY GALT

——	Local Revenues	Local Outlay	Deficit
Canada.....	$1,297,000	$2,260,000	$963,000 or 38 cents per capita
Nova Scotia.....	107,000	667,000	$560,000 or $1.70 per capita
New Brunswick....	89,000	424,000	$335,000 or $1.33 per capita

In his speech at Sherbrooke, Galt presented estimates of what the expenditures of the provincial governments on their reduced responsibilities would be and of the income to be anticipated from the revenue sources left in their hands. These estimates were based on the financial position of the provinces in 1864 and as they provided the basis of discussion for the subsidy calculations, they are set out in Table 7. They show prospective deficits ranging from $1.70 per capita in the case of Nova Scotia down to 38 cents per capita for the new Provinces of Ontario and Quebec. The Table shows the extent of the gap which somehow had to be bridged if the main lines of the proposed financial settlement were to be retained intact.

[68] Thus New Brunswick and Nova Scotia would lose 72 per cent and 75 per cent respectively of their combined provincial-municipal revenues while Canada would lose only 56 per cent. The realty and other miscellaneous taxes collected almost entirely by the municipalities in Canada amounted to nearly a third of the total public revenues (municipal and provincial) in 1866. In the Maritimes, these direct taxes yielded less than 10 per cent of the total revenues. See Table 6. Developed municipal institutions accompanied greater urbanization which was presumably an indication of higher taxable capacity.

[69] The position of Ontario was considerably better than that of Quebec where municipal development was still in its early stages. It is impossible to disentangle the municipal revenues attributable to the two separate areas of Canada before Confederation and no accurate statement of the relative position of the two new provinces can be made.

There was a strong desire to avoid the device of annual subsidies from the Dominion to the provinces. However, the framers of the settlement refused to give the provinces a concurrent power of indirect taxation lest it be used to establish interprovincial trade barriers and they did not believe it was politically possible to impose direct taxation.[70] Thus there was no real alternative and subsidies were introduced to bring provincial revenues to a level with minimum estimates of future expenditures.

The Quebec Conference found considerable difficulty in reaching a subsidy formula which would satisfy the demands of equity, and meet the wide variation in the anticipated deficits of the different provinces. The prevailing individualism which enforced representation by population in the political sphere assumed without question that the first principle of equity in the financial settlement was per capita equality. However, a per capita annual payment which would bridge the gap for Nova Scotia or New Brunswick would give Ontario far more additional revenue than appeared necessary. Moreover, it would require total annual subsidies in excess of $5 million a year. This was too large a deduction from the prospective annual revenues of $12 million to be collected by the Dominion which was undertaking such great responsibilities. Accordingly there was pressure to reduce the estimates of provincial needs. Nova Scotia, where the greatest deficit was expected, revised its estimate of expenditures to a figure which would require an 80 cents per capita subsidy to bridge the gap. This standard, which brought the total annual subsidies below $3 million, was adopted as the basis of settlement.

This arrangement was still open to the objection that it gave Ontario more than was necessary while it was a very tight fit for Nova Scotia. New Brunswick, pleading special need, was granted an extra $63,000 for a period of ten years. The 80 cents per capita subsidy was modestly supplemented in the final settlement by lump sum grants for the support of general government, and the provinces were launched with these subsidies as the solvent for their financial weakness.

Although the financial settlement quickly proved to be intolerable for Nova Scotia—a revision being necessary in 1869—its principal features stood for many years and, with minor modifications, it was applied to new provinces as they joined the Dominion. Its terms were written into the British

[70] Appendix 2—D. G. Creighton, *British North America at Confederation*, p. 85.

North America Act and the subsidies agreed upon were declared to be "in full Settlement of all future Demands on Canada". If the provinces chose to increase their expenditures materially, it was intended that they should obtain their additional revenues entirely from the revenue sources allotted to them.

Summary—the great responsibilities and the dominant financial position of the Federal Government

The financial settlement underlines the various statements of the Fathers as to the great functions of the new Dominion and relatively minor financial role to be played by the provinces. The important responsibility for national defence was transferred to the Dominion and the provincial treasuries were relieved of the incalculable burdens which it might entail. The largest single item of public expenditure in the colonies had been the promotion of economic development. One of the major purposes of Confederation was to apply still greater energies to this task and to provide still larger financial resources for the purpose. In effect, the Dominion was a great holding company designed to unify the efforts of the colonies in realizing the opportunities of a transcontinental domain. All the provincial assets which could be adapted to that purpose were transferred to the Dominion as were the debts which the provinces had incurred in acquiring them. The burden of the functions left with the provinces was expected, in per capita terms, to grow lighter rather than heavier. In the economic and social conditions of the time, the cost of education and public welfare was not expected to increase disproportionately to the growth of population. It was anticipated that rapid extension of municipal institutions would carry any additional burdens which these services might involve in the future and would reduce the outlay of provincial governments upon them.

The transfer of the dynamic, expanding functions of government to the Dominion while the provinces retained those which were thought to be static or likely to decline explains the lopsided division of the revenue sources of the time. The Dominion was given an unlimited power of taxation to enable it to meet the growing as well as the unpredictable responsibilities of the State. The provinces were left with but fractions of their former revenues. The power of direct taxation had to be given to the provinces in order that they might confer that power on the municipalities which they were expected to create. But all the circumstances of the day seemed to indicate that direct taxation could not be fruitfully employed by other than municipal governments. It was expected that any additional revenues which a province might need would be found in the growing receipts from the public domain rather than in direct taxation. Subsidies were introduced to make it barely possible for the provinces to balance their budgets. These subsidies were conceived to be final and, subject to a minor exception,[71] were not intended to grow with the growth of population.

[71] The per capita subsidy was based on the census of 1861. As agreed at Quebec, this basis was not subject to change with rising population. However, at London, a concession was made to Nova Scotia and New Brunswick, allowing a decennial revision in their cases until a population of 400,000 was reached.

Chapter II

THE FIRST THIRTY YEARS

1. The Economic and Constitutional Background

The enactment of the British North America Act did not of itself assure that balance between national loyalties and interests and provincial loyalties and interests which an effective federal system requires. The Act merely provided a framework within which such a balance might be established. During the first thirty years, Canada had to search for an equilibrium between these two sets of forces. In the early part of the period, the internal and external influences which brought about Confederation continued to operate and their momentum carried the nation-builders through to the main objectives of the union. The Dominion Government vigorously attempted to bring into being the centralized federalism which it recognized as the intention of the Fathers of Confederation. In the later part of the period, provincial loyalties arose in the new provinces and reasserted themselves in the old. Provincial governments contested the dominance of the Dominion and won a signal victory for "provincial rights". The optimism and buoyancy of the first years fixed men's eyes on the broader horizons. In the continued depression of the later years, the visions faded and Canadians were compelled, in the urgent need for adjustment, to turn to the older and more obvious realities of provincial and local community life. In the tug of these forces, the relative strength of national and provincial sentiment gradually became clear and the working principles of Confederation began to emerge.

Rounding Out the Union—Dominion's aggressive program to build a transcontinental economy; all-Canadian transportation and western settlement

The Fathers of Confederation were the agents of the unifying forces. It was they who had the visions of expansion and they who took the helm of government in 1867. As federal cabinet ministers and lieutenant-governors of provinces, they pressed on without serious challenge to round out the union. The attitude of the United States was still aggressive and no settlement of its serious differences with Great Britain had been reached. In the face of these alarming circumstances, the Dominion Government was forced prematurely into the race for the West. In 1870, the lands of the Hudson's Bay Company were acquired and the new Province of Manitoba was created. The burden of debt in British Columbia was, by this time, more oppressive than ever and the final collapse of the gold boom made it difficult to hope for or to justify the continued separate existence of the colony. Thus the promise of a railway easily brought British Columbia into Confederation and the Dominion from sea to sea became a reality in 1871.

In the meantime, Prince Edward Island had succumbed to the lure of railway building. In 1863, the public debt of the Province had been little over $250,000. Ten years later, the total provincial liabilities including the commitments for the construction of the Prince Edward Island Railway were more than $4 million. This was a paralyzing load and the island province which had resisted persuasion in 1866 now accepted the promise of salvation through the remission of debts and entered the Dominion in 1873.

Economic conditions were favourable to the completion of these political objectives. The new Dominion was launched on a rising tide of world prosperity and the assumption of the debts of the new provinces was no excessive burden to the federal treasury. In Great Britain, economic activity was stimulated by easy money and a booming foreign trade; in the United States, by tremendous railway expansion and post-war reconstruction. Between 1868 and 1874 Canadian exports to Great Britain were doubled and, with growing demand and higher prices, a 30 per cent increase in exports flowed into the United States over the trade barriers which had replaced the Reciprocity Treaty. Larger markets for lumber benefited New Brunswick and the Ottawa Valley. Nova Scotia greatly increased its exports of fish and recovered its markets for coal in the United States. Shipbuilding in the Maritimes approached, in 1874, the high peak attained during the Civil War. Agriculture, the most important industry in Ontario and Quebec, nearly doubled its exports in this period.

In this atmosphere of general expansion and prosperity, the Federal Government undertook without hesitation the territorial rounding out of the Dominion, and the transportation developments which were to promote trade between the separate regions. The Intercolonial was built and the canal system of the St. Lawrence was deepened. Expenditures on public buildings, harbours and wharves were greatly increased. With the entrance of British Columbia into the Union in 1871, the building of the Pacific railway became a definite commitment and by 1873 the Dominion had pledged generous assistance to Sir Hugh Allan and his associates in building the railway over an all-Canadian route.

The decision to build the railway entirely through Canadian territory was of fundamental significance. Before Confederation, the colonies had been faced with two broad alternatives. One was to be drawn into the economic orbit, and probably also into the political system, of the United States. This would have led to integration, in each area according to its particular characteristics, with the common neighbour. The economic development of each region would have been determined by the relationships it managed to establish with the country to the south. On the eve of Confederation, it seemed that the price of such relationships would not be less than political assimilation. This consideration turned the colonies to the other alternative which was to ensure political independence through a union of their own and to seek strength and prosperity by a national economic integration based on an expanding inter-regional trade. The pull to the south was strong. The establishment of an east-west integration would require bold and far-sighted policies of national development.

The first of these policies was to provide east-west channels of trade independent of the United States by building a transcontinental railway wholly over Canadian territory. Such a railway would open the undeveloped lands of the West for settlement and fix the political and economic destiny of the area. But the construction of such a line over empty distances and forbidding mountains could not be undertaken without extensive public assistance. This fact pointed to the second policy which was indeed an essential complement of the first. The public lands of the Northwest were to be used by the Dominion to promote railway expansion and rapid settlement. Land grants would provide the greater part of the public assistance required by the railways. The railways, in turn, would make the lands valuable and a free homestead system would attract a rush of settlers. The decisions to build an all-Canadian railway and to establish a vigorous Dominion land policy were basic national decisions which, together with the adoption of the protective tariff which was soon to follow, fixed the pattern of subsequent economic development in the Dominion.

The technique of combining railway construction and settlement had already been devised and demonstrated in the United States where Canadians had observed the results with envy. Its main features were railway land grants and the free homestead system. The Dominion assured the application of these to the Canadian frontier by the Manitoba Act of 1870. This statute withheld the public lands from the control of the Province and provided that all "ungranted or waste lands" in the entire Northwest should be "administered by the Government of Canada for the purposes of the Dominion". These purposes were made manifest by the free homestead provisions of the Dominion Lands Act of 1872 and the grant of 50 million acres of western lands to the Pacific railway syndicate in 1873.

By 1873, in the short space of six years, the framework of the new transcontinental economic and political system had been erected. The continued rapid expansion of the United States had given the enterprise an urgency it might otherwise have lacked. The "race to the Pacific" had been won and the vital railway and settlement policies had been launched. These were ambitious policies for a small and scattered people but the nation-builders were undeterred by such reflections. "We must not be dribblers in this matter", said the Minister of Finance in 1869. "The opening up of that territory [the Northwest] must be accomplished in a large and comprehensive way."[1] The charge of dribbling could scarcely be laid against them. In six years the Federal Government had committed itself to capital expenditures of almost $100 million,[2] as compared with the total debt of $93 million accumulated by all the colonies in their century of existence before Confederation. But the Government was confident of the ability of the country to carry this burden with ease once the magic of its policies began to work.[3] In the meantime, the rising prosperity of the country made the initiation of these policies immediately

[1] Budget Speech, May 7, 1869, p. 34.

[2] $30 million for the Canadian Pacific Railway, $14½ million more for the Intercolonial and Maritime railways, almost $44 million for canals and $8 million for miscellaneous works.

[3] Budget Speech, April 1, 1873.

possible. Between 1868 and 1874, Dominion revenues nearly doubled, most of the increase coming from customs duties. This buoyant financial condition enabled the new Federal Government to consolidate the union and assume the dominant and aggressive role which the Fathers of Confederation had assigned to it. The greatness of its enterprises caught the imagination and evoked the beginning of a national consciousness.

The Dominion's Paternalism toward the Provinces —its claim to dominance

The Dominion Government not only asserted its leadership in economic development; in its attitude toward the provinces, there was much of the old paternalism which had marked the actions of the Imperial Government in colonial days. It maintained that the Lieutenant-Governor was a Dominion officer whose duty it was to reserve bills according to instructions from the Governor General in Council.[4] In 1868 Sir John A. Macdonald, as Minister of Justice, declared that the Federal Government would be called upon to consider the propriety of allowance or disallowance of provincial enactments much more frequently than the Imperial Government had done in the recent past.[5]

In accordance with this policy, 51 bills were reserved[6] and 65 acts disallowed[7] in the first thirty years and, of these, 39 were reserved and 29 disallowed in the first ten years of assertive Dominion leadership. The federal authority proposed to refuse assent on reserved bills and to disallow legislation on several grounds. Thus, it claimed the substantially judicial function of deciding whether provincial legislation was *ultra vires*. It stood ready to invalidate provincial enactments which it thought unjust or contrary to sound principles of legislation. It was prepared to veto legislation which, according to its view, conflicted with imperial treaties or policies, or with Dominion interests and policy.

It was quite in harmony with this theory of its superior position that the Dominion maintained its sole right to supplement the original financial arrangements of 1867 or to fix the terms of admission of new provinces. In 1869, the Dominion Parliament itself increased the subsidies to Nova Scotia. A protest by the Ontario Legislature to the Imperial Government against this unilateral action of the Dominion was of no avail, drawing from the Colonial Secretary a reply that the Dominion Parliament had power to make such adjustments. In 1870 and 1871, Parliament, of its own motion, gave Manitoba and British Columbia a larger representation in its councils than the principle of population would have warranted. Arguments that these modifications were contrary to the constitution and required the consent of the provinces were brushed aside and the request for imperial legislation to validate the large scheme of the Manitoba Act of 1870 was made, in accordance with the proposal of the Opposition, by joint address of both Houses of Parliament without consulting the provinces.

However, the forces which made this Dominion leadership and predominance possible waned rapidly after 1870. In that year, the Red River Rebellion ended and the last Fenian Raid failed. In 1871, with the entrance of British Columbia, the Dominion tightened its hold on the West. The outstanding disputes between the United States and Great Britain were settled by the Washington Treaty in the same year and the Republic accepted, by implication, the accomplished fact of a transcontinental Dominion. It is significant that the departure of the last imperial troops[8] from Quebec in 1871 did not bring any sudden and vigorous measures for Canadian defence by the Dominion Government. The Dominion was not compelled, after all, to battle for its existence. The political and military purposes which had helped to justify its creation slipped from the minds of a pacific and unapprehensive people.

The Great Depression—check to the Dominion's aggressive program of development and the adoption of the National Policy of protective tariffs.

At the end of 1873, the boom broke and was followed by world-wide depression. In the United States, it involved a sharp contraction in railway and building construction; in Great Britain, a severe contraction of credit and a steep decline in foreign trade. The fall in prices and international lending brought an abrupt check to economic expansion in new countries. In Canada, the first effect of this general depression was a decline in the demand for lumber. Between 1873 and 1879,

[4] See *Dominion-Provincial Legislation, 1867-95,* pp. 104-5 per Sir John A. Macdonald in 1873 and pp. 77-8, Report of the Committee of the Privy Council in 1882.

[5] *Ibid.,* pp. 61-62.

[6] *Memorandum on the Office of Lieutenant-Governor of a Province,* Department of Justice, Ottawa, 1937, pp. 51-60.

[7] See *Memorandum on Dominion Power of Disallowance of Provincial Legislation,* Department of Justice, Ottawa, 1937, pp. 62-69.

[8] Britain continued to man military stations at Halifax and Esquimalt and the last garrison did not leave Halifax until the beginning of the twentieth century.

exports of forest products fell by one-half. The prices of manufactured goods fell more rapidly than those of agricultural products but by 1876 the country was generally enveloped in depression which grew slowly worse until 1879. In the latter year, both the price level and the physical volume of exports had fallen by 20 per cent from the peak of 1873.

The depression was rapidly translated into falling public revenues while the public debt continued to mount. The Federal Government was driven to serious reconsideration of the extensive projects which had been launched in the preceding prosperous period. Boundless optimism was succeeded by unrelieved gloom. The Government had reaped but little reward for its huge expenditures and it could see no hope of generous returns for years to come. Alarmed at the mounting burden of debt, the Federal Government retreated from its aggressive program of development. The Intercolonial, the Prince Edward Island railway and the canal improvements were carried to completion. But no new projects were undertaken and, following the Pacific scandals, the agreement for the construction of the Pacific railway was dropped. The new government of Alexander Mackenzie announced a policy of building the railway as a public work but only as the resources of the country would permit.

The Great Depression, which continued almost unrelieved for over twenty years, had serious consequences for the entire country. As time went on, the national policies of the Dominion,[9] which were to have brought abounding prosperity through western expansion and settlement, were discredited by failure. The men, money and markets, necessary for the successful operation of the expensive national machinery, failed to materialize. The great community equipment lay almost unused, an oppressive burden on the country.

As the depression continued, the old agitation for a policy of protection to domestic industries gathered increasing force and acquired a wider appeal. The tariff policy during the first twelve years was primarily designed for revenue purposes. There was much resentment and dissatisfaction over Confederation in the Maritimes. Among other things, the Maritimes feared an upward revision of tariffs and the Federal Government was anxious to conciliate them by removing any ground for such fears. Furthermore, the Dominion was anxious not to provoke tariff retaliation by the United States with which Canada enjoyed a growing trade in this period.[10]

Thus the early Canadian tariff structure retained the main features, though not the exact rates, of the pre-Confederation tariffs in the provinces. Luxuries paid high rates, the great bulk of finished manufactures paid 15 per cent, raw materials and most semi-finished goods entered free. The only general change in the tariff before 1879 occurred in 1874 when the 15 per cent schedule was raised to 17½ per cent in an effort to maintain revenues in the face of falling imports.

The main object of policy through the period was to get a renewal of the Reciprocity Treaty with the United States. However, the persistent advances to Washington were of no avail. The Washington Treaty of 1871 did not include a renewal of reciprocal trade relationships and the treaty which George Brown negotiated in 1874 was not ratified by the United States Senate. The Washington Treaty gave the Americans free access to Canadian Atlantic fisheries, free navigation of the St. Lawrence and the use of the canals on equal terms. Canada had hoped to bargain for reciprocity with these privileges but the British Government used them to advance the general interests of the Empire. All efforts to secure closer trade relations with the United States failed and the rebuffs aroused in Canada a desire for retaliation.

"Reciprocity of trade or reciprocity of tariffs" became the slogan. There was still no doubt, however, that the former alternative was preferable. American industry had not yet grown up to the protective tariff. It had not yet achieved the special advantage of mass production, and it was handicapped by the high cost of iron and steel and by the inflated wage levels inherited from the Civil War. Canadian manufacturers were agreed that they could compete successfully with the United States producers on the basis of a North American market.[11] If, however, they were to be denied this wider market, they insisted that they could not share the limited market at home. If Canadian industry could not develop in relation to an industrial integration of North America, then conditions must be created to enable it to develop in relation to the opportunities of an economic integration of Canada.

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[9] The expression "national policies" as used throughout this Report refers to federal economic policies such as western settlement, all-Canadian transportation and protective tariffs. In the capitalized singular form, the "National Policy" refers solely to the policy of protection adopted in 1879.

[10] This policy was announced in 1868 by the Minister of Finance in his speech on the Budget.

[11] See *Canada, Journals House of Commons*, (1876), Appendix (3).

The price decline which began in 1873 was much more pronounced in manufactured goods than in raw materials. Between 1873 and 1879 the price level of Canadian imports (mostly manufactures) dropped 26 per cent while the price level of exports fell by 8 per cent. This, together with the loss of natural shelter resulting from the decrease in transportation costs, bore heavily upon domestic industry and commerce. Declining inventory values inflicted heavy losses upon the distributive trades. The pressure of falling prices and increasing competition led to a general outcry against what was called the "slaughtering of goods" by the United States and Great Britain. Higher tariffs were urged to maintain the balance between imports and the local manufactures. And, of course, there was a more general demand for a protective policy as the panacea for depression.

The high hopes for rapid development of the country and for the commercial and industrial benefits expected to flow from such development were frustrated. While the previous Federal Government had been aggressive in the work of development, the new Ministry was now timid and out of sympathy with the program. In the face of this apparent failure and hesitation, the policy of industrialization by means of the protective tariff was offered as the way out of stagnation, and as a new basis for economic expansion. Under existing conditions, this proposal had a wide popular appeal.

After Confederation, attempts were made to foster a Canadian national spirit, and industrialization by high tariffs was vigorously advocated as an important step in this direction. This particular aspect of the policy was expressed by the Minister of Finance when he submitted the new tariffs to Parliament in 1879. He insisted that "the time has arrived when we are to decide whether we will simply be hewers of wood and drawers of water; . . . The time has certainly arrived when we must consider whether we will allow matters to remain as they are, with the result of being an unimportant and uninteresting portion of Her Majesty's Dominions, or will rise to the position, which I believe Providence has destined us to occupy . . ."[12] The policy which was to transform the economy and make a great nation was impressively labelled "The National Policy".

These various factors combined to bring about a vigorous policy of tariff protection in 1879. The upward revisions of the tariff were comprehensive and were designed particularly to promote domestic production where imports were large. "We have endeavoured to meet every possible interest . . ." said the Finance Minister. In general, if luxuries be excluded, the highest duties were imposed on finished consumers' goods of widespread consumption, the rates being in the neighbourhood of 30 per cent. The typical rate on fully manufactured industrial equipment and machinery was 25 per cent. Semi-finished goods and industrial materials paid from 10 to 20 per cent. The fact that many of the duties, particularly the most protective, were specific rather than *ad valorem* reflected the recent experience with falling prices.

Textiles, which made up nearly 30 per cent of total imports and in which domestic manufacturing, with the exception of coarse woollens, had made virtually no progress, were specially singled out for a substantial measure of protection.[13] The added protection given to iron and steel and their products, the domestic production of which was appreciable only in the case of farm implements and the sheltered items (foundry products, certain rolled products and heavy machinery) was confined chiefly to the finished and highly fabricated articles.[14] In the case of primary iron and steel, where imports were heavy, the duties imposed were small.[15] Important items such as furniture, manufactures of glass, chinaware and boots and shoes were given considerable increases in duties.[16] While the bulk of miscellaneous manufactures paid 20 per cent there were many cases of rates equivalent to 30 per cent or over.

The increases in tariffs were also extended to agricultural products but in this case were largely ineffective, because, in most items, the country was on an export basis. A duty of 50 cents per ton was placed on coal and coke to enable Nova Scotia coal to reach the markets of Central Canada which were then being supplied entirely from the United States.

It is clear from this brief analysis that the National Policy tariff of 1879 would be a powerful

[12] Budget Speech, March 14, 1879, pp. 22-3.

[13] Cotton was given protection at all stages of manufacture with duties ranging from 20 per cent on yarns to 34 per cent on piece goods. The tariff on woollens ranged from 29 per cent on yarns to 34 per cent ready-made clothing. Silk piece goods and clothing paid 30 per cent.

[14] Carriages, wagons and railway cars, as well as miscellaneous hardware and tools paid 30 per cent. A rate of 25 per cent was imposed on machinery, farm implements, boilers, tanks and engines, locomotive engines, bridge and structural steel, stoves and castings of all kinds. The duties on equipment and semi-finished articles such as chains, wire, galvanized sheet iron, tin plate and tubing ran from 10 per cent to 20 per cent.

[15] Pig iron paid 12·5 per cent, the principal rolled items (except steel rails) 17·5 per cent, but steel ingots, rails, bars and fish plates remained free.

[16] Furniture and clocks paid 35 per cent, refined petroleum 38 per cent, manufactures of glass 30 per cent, chinaware 25 per cent, woodenware 25 per cent, boots and shoes 25 per cent.

instrument for promoting domestic production in a wide range of articles and for diverting trade from international into interprovincial channels. With the extension of the protective principle to primary iron and steel by the introduction of bounties in 1883 and higher duties in 1887, the application of the policy was complete. The protective system thus established during 1879-87, although modified and refined, and from time to time changed in its emphasis, has never since been basically altered. It was a drastic change in the conditions under which the economies of the British North American colonies had grown up, and subsequently was a major factor affecting the development and structure of the transcontinental economy which Confederation had created. It became, in truth, a national policy.

Stagnation—unfavourable external influences and the disappointing results of the national economic policies

During the years 1867-79, the three basic national economic policies were adopted. By settlement of the Northwest, transcontinental transportation through all-Canadian territory and industrialization by protective tariffs, the Federal Government planned to bring about economic expansion and complete the unification of the country. Because of the dependence upon exports, foreign capital and immigration, they could become effective only if stimuli came from abroad. For over two decades, however, the external factors were unfavourable. The collapse of the boom in 1873 brought on the Great Depression which continued for twenty-three years. A persistent decline in prices, a sharp shrinkage in international lending and a low level of investment caused general economic stagnation. The Canadian economy, strongly affected by these influences, virtually stood still, although there were many internal shifts and changes.

Table 8.—Canadian Price Indices, 1871-96

—	Wholesale Prices of 70 Commodities [a]	Export [b]	Import [b]	Grains and Flour [a]	Animals and Meats [a]	Iron [a]
1871-73	100	100	100[c]	100	100	100
1885	79	91	73	93	90	61
1891-93	78	97	69	83	94	53
1896	65	86	60	62	68	48

[a] Taylor and Michell, *Statistical Contributions to Canadian Economic History* (Toronto, 1931), p. 56.
[b] *Ibid*, p. 6.
[c] 1873-75 = 100.

The price level, which fell about 35 per cent between 1871-73 and 1896, was a continuous damper upon enterprise. The relatively greater drop in the prices of manufactured goods than in those of raw materials such as lumber and agricultural products was a striking feature of the decline. Thus import prices fell more rapidly than export prices and the terms of trade became increasingly favourable. However, the stimulating effects of this factor upon the exporting groups was largely nullified by the tariff increases of 1879-87.

Domestic production in many lines could not take advantage of the new tariff overnight and thus the most immediate effect of the tariff increases was a substantial rise in Dominion customs revenue. The improvement in Dominion finances coincided with a short period of general economic revival throughout the world from 1879 to 1883. Encouraged by these favourable signs, Sir John A. Macdonald, on his return to power in 1879, took up again the project of a transcontinental railway. The half-hearted policy of building it piecemeal as a public work was discarded and in 1880 a group of capitalists agreed to undertake an all-Canadian railway to the Pacific as a private enterprise.

The Canadian Pacific Railway Company was promised substantial cash subsidies and grants of western lands. A monopoly clause in the agreement practically freed the Company from competition in the area between its line and the American border across Manitoba and the Northwest Territories. Surmounting stupendous difficulties, the railway to the Pacific was completed in 1885. During and after its construction, the Dominion tried to encourage the building of local lines in British Columbia and the Eastern Provinces by means of land grants and cash subsidies. The provinces and the municipalities also gave considerable assistance to railways in the same period. By 1896 this combined public assistance had secured the construction of some 3,300 miles of branch lines and about 1,700 miles of colonization railways.

Under these stimuli, the railway mileage of the country mounted rapidly, despite unfavourable economic conditions. By 1896, there were 16,270 miles of line (one mile per 312 persons, a proportion not much different from that of the present day). In the Maritimes, all the principal lines had been built and a fairly dense network of railways had been laid over the settled portions of Ontario and Quebec.

TABLE 9.—GOVERNMENT AID TO RAILWAYS TO JUNE 30, 1896[17]

(Millions of Dollars)

Dominion	165.0*
Provinces	33.0
Municipalities	16.9
Total	214.9
Total Paid up Capital of Railway Companies, Shares and Bonds	697.2

*In addition the Dominion gave net land grants totalling 31·8 million acres.

An extensive system of branches had been built in southern Manitoba. Slow progress in the North-west Territories had placed lines between Regina and Prince Albert, Calgary and Edmonton and links with the American border ran from Moose Jaw and Medicine Hat. The important role played by governments in the provision of these facilities is indicated in Table 9.

Two generations of North Americans had believed that railways were the unfailing cause of general prosperity. But railway expansion did not bring prosperity to Canada in the period under review. The brief trade revival of 1879-83 faded away and the general world improvement of 1888-90 was offset in Canada by poor crops and bank failures. The Great Depression did not lift until 1896 and it was not until 1897 that the per capita volume of exports reached the level attained in 1873.[18]

[17]

Dominion			
Construction—			
Intercolonial and P.E.I. Railways	59.0		
Canadian Pacific Railway	37.7		
Other railways	.5		
		97.2	
Subsidies—			
C.P.R. main line and main line extensions	28.0		
Allowance for C.P.R. lands	10.2		
Other railways	13.6		
		51.8	
Loans		16.0	
Total Dominion Aid			165.0
Provinces			
Subsidies and Construction		27.1	
Loans		5.6	
Subscription to shares and bonds		.3	
Total Provincial Aid			33.0
Municipalities			
Subsidies and Construction		11.7	
Loans		3.0	
Subscription to shares and bonds		2.2	
Total Municipal Aid			16.9
Total Government Aid			214.9

[18] During 1888-90, the volume of exports per capita was 20 per cent below the level of 1871-73.

The changes in the composition of exports reveal some of the internal shifts in occupations that took place under the downward pressure. Lumber declined in relative importance while agriculture continued to expand. But here there was a shift from grains, which met the rising American tariffs and stiffer competition from the American West, to live stock and dairy products which, with cheaper transportation, found larger markets in Great Britain. Increasing exports of fish reflected the development of the salmon fishery in British Columbia and the lobster fishery in the Maritimes. Particularly after 1886, they also reflected the pressure of people crowding into the industry as a means of livelihood owing to the virtual disappearance of shipbuilding and shipping.

TABLE 9A.—EXPORTS OF CANADIAN PRODUCE, 1868-1896

(Millions of Dollars)

Years ending June 30	Total	Agricultural Products			Products of the Forest	Fish	Minerals	Manufactures and Miscellaneous
		Animals and Their Produce	Grains, Vegetables, Fruits etc.	Total				
1868	48·5	6·9	12·9	19·8	18·7	3·4	1·3	5·3
1874	76·7	14·7	19·6	34·3	27·2	5·3	3·8	6·1
1879	62·4	14·1	19·6	33·7	13·3	7·1	3·2	5·1
1882	94·1	20·5	31·0	51·5	24·0	7·7	3·1	7·8
1886	77·8	22·1	17·7	39·8	21·0	6·9	4·1	6·0
1891	88·7	26·0	13·7	39·7	24·3	9·9	6·0	8·8
1896	109·7	36·5	14·1	50·6	27·2	11·2	8·4	12·3

The effect on Canada of the adverse economic conditions between 1874 and 1896 is most clearly revealed by the population figures. The principal policies and expenditures of the Federal Government were designed to fill the empty spaces with people. Yet for thirty years Canada was a land of emigration helping to people the frontier and cities of the United States.

TABLE 10.—CANADIAN POPULATION MOVEMENTS, 1871-1901

(Thousands)

—	Population at beginning of Decade	Actual Increase	Natural Increase (Est.)	Immigration	Emigration (Est.)
1871-81	3,689	636	799	342	505
1881-91	4,325	508	686	886	1,064
1891-1901	4,833	538	612	321	395

In each of the three decades, 1871 to 1901, as indicated by Table 10 the increase in Canadian population was less than the estimated natural increase. While slightly more than one-and-a-half million immigrants intending to settle entered Canada, almost two million people left the country. Between 1881 and 1901 over 600,000 native Canadians moved across the border and in 1891 about one-fifth of all the Canadian-born lived in the United States. So heavy was the emigration in the early nineties that the population was virtually stationary.

The disappointingly slow growth of population between 1871 and 1901 was accompanied by significant changes in its distribution. Owing to improvements in transportation and growing industrial development, Canada was losing its predominantly rural character. The urban population rose from 20 per cent of the total to 38 per cent. The towns and cities absorbed 77 per cent of the total increase in population. At the beginning of this period, Montreal and Toronto, serving the hinterland of the St. Lawrence Valley, had 5 per cent of the total population. In 1901, with a greatly extended hinterland, the proportion had risen to 10 per cent.

Regional and Provincial Discontent—the challenge to the dominance of the Dominion

A bald statement of the length of the depression gives little hint of its effect upon the lives of the people. Federal policies had burdened them with debt and failed to bring prosperity. The only large-scale remedy which the Dominion had been able to offer was the National Policy of 1879. In these circumstances, communities had to do what they could to help themselves, looking to the provinces for the help which the Dominion failed to give. The provincial governments attempted to promote expansion on their own frontiers by railway building and immigration policies. But most of them quickly discovered the strait jacket in which the financial settlement of Confederation had placed them. The agitation for better terms gathered strength and led to differences with the Dominion. The failure of the Dominion's economic policies, which formed such important elements in the new national interest, discouraged the growth of a strong, national sentiment; and local loyalties and interests began to reassert themselves.

Indeed, there had never been any large transfer of loyalty from the older communities to the new Dominion created for urgent common purposes. The achievement of Confederation and the spectacular activity of the Federal Government in the early years had merely overshadowed or, at most, temporarily subordinated the separate interests of the distinct regions and communities. From the very date of the union, there had been a widespread and burning conviction in Nova Scotia that it had been manoeuvred into a bargain prejudicial to its vital interests. In the provincial election held late in 1867 thirty-six out of thirty-eight members elected to the legislature were anti-Confederates. The new Government tried desperately to extricate the Province from the bonds of the union. Although these efforts were unavailing, the sentiment against Confederation remained strong in Nova Scotia and was significant in New Brunswick.

Confederation had not succeeded in eliminating the clash of racial and religious differences which had agitated the Province of Canada in the past. It had been hoped that the creation of two provinces, allowing free play to these cultural differences in separate spheres, would remove these antagonisms from deliberations on matters of common interest in the federal councils. When the western insurrections of 1870 and 1885 raised a racial and religious conflict in the valleys of the Red River and the Saskatchewan which disturbed the peace in the new federal territories, the opinions of the dominant groups in Ontario and Quebec clashed over the action taken by the Federal Government. Quebec's deepest feelings were outraged by the execution of Louis Riel and a wave of resentment against the Federal Government swept the Province. It became clear at once that there were federal issues in which conflicts of opinion might follow in the main provincial lines. In such circumstances, any solution was bound to create Dominion-provincial friction.

Such Dominion-provincial friction was not limited to cases of the resurgence of loyalties antedating Confederation. The problems of the Pacific railway embittered the relations of British Columbia and the Federal Government during the seventies; and in the eighties the requirements of federal railway policy brought Manitoba and the Dominion into sharp conflict. The appropriation of western lands "for the purposes of the Dominion" deprived Manitoba of its natural resources and the monopoly clause in the charter of the Canadian Pacific Railway Company prevented the Province from promoting a competitive transport system. Repeatedly the Provincial Legislature chartered railway companies to build lines to the international boundary and repeatedly the Dominion Govern-

ment disallowed them on the ground that the projected lines would divert traffic to the United States and thus conflict with the settled transport policy of the Dominion. Dominion policy was hard to reconcile with the interests of the settlers in Manitoba and the Provincial Government became the spearhead of local demands.

British Columbia was irritated by federal tariff policy and its long controversy with the Dominion over Oriental immigration began in this period. Large sections of opinion in the Maritimes were antagonized by the introduction of the National Policy in 1879. In 1886, a series of resolutions was introduced in the Legislature of Nova Scotia advocating secession on the ground that the commercial and financial interests of the Province had been vitally injured by Dominion policies. By 1887, agricultural and lumbering interests in Ontario were straining against federal tariff policy and urging commercial union with the United States. Ontario clashed with the Dominion over the location of the Ontario-Manitoba boundary and the ownership of its northern natural resources. Mowat, as Premier of Ontario, fortified the principle of "provincial rights" when he claimed and won the right of the provinces to regulate the sale of liquor within their boundaries and for years he conducted an unwearying attack on the federal power of disallowance.

These various grievances culminated in the provincial conference held at Quebec in 1887. The five provincial premiers who attended included all the leaders of provincial protest. The procedure of the provincial premiers seems to indicate that they claimed the right to examine and correct the operation of the federal system. Although their interests differed widely, they were able to agree that a considerable curtailment of federal power would be desirable. They proposed to increase the subsidies to the provinces, to abolish the federal power of disallowance, and to make the right of the Dominion to declare public works to be for the general advantage of Canada conditional on the approval of the province concerned. Lieutenant-Governors were to be acknowledged to be representatives of the Sovereign rather than of the Dominion, and each province was to nominate half of the Senators from the province in the Senate.

The conference challenged the view that Confederation was designed to set up a highly centralized and pervasively dominating government at Ottawa. In its swing to the other extreme, emphasizing the primacy of the provinces, it was no doubt employing a theory of federalism similar to the doctrine of "states' rights" in the United States. But the strength and diversity of provincial interests shown by the conference indicated that, under the conditions of the late nineteenth century, the working constitution of the Dominion must provide for a large sphere of provincial freedom.

The policies of the Federal Government were in discredit and the Government itself was embarrassed by its difficulties in the late eighties. Except for a short interval between 1874-78, the Federal Government throughout this period had been identified with Sir John A. Macdonald and his associates. Sir John's views of the nature of Confederation, so clearly stated both before and after the union, are well known. It is not known how many of the other framers of the British North America Act shared his views. But it is important that, for nearly thirty years, Macdonald and those who thought like him were the Federal Government of the new Dominion. The views which they took of the functions of the Lieutenant-Governor and the use to be made of the powers of reservation and disallowance have already been discussed. Their practice in revising the financial arrangements with the provinces and securing constitutional amendments has been noted. Their actions reveal clearly their conception of the primacy of the Dominion and the subordinate position of the provinces.

It is highly significant that the realities of the later years of the period forced a modification of this conception on the very men who held it most strongly. Their interpretation of the general interest failed to command widespread assent in the different provinces. The ineradicable, particularist interests, always associated with different regions and ways of life, demanded free expression. In face of the formidable provincial protest, the Government was forced to retreat. In 1884, the Ontario Rivers and Streams Act, already thrice disallowed by the Dominion, was re-enacted by the Provincial Legislature and the Dominion acquiesced. Later, the Dominion abandoned its policy of protecting the Canadian Pacific Railway Company from competition through the power of disallowance and finally repealed the monopoly clause itself. During the early nineties, it began the downward revision of the tariff.

Provincial Rights and the Constitution—the interpretations of the Privy Council widen the powers of the provinces.

It is a matter for speculation what would have been the ultimate issue between the Dominion

and the provinces if the conditions of the eighties had continued. The equilibrium was becoming very unstable. On the one hand, there was the conception of federal dominance which the Dominion Government tried to enforce and which was strongly supported by powers of reservation and disallowance. There were the sweeping words of the opening paragraph of section 91 which, it might be argued, gave to the Dominion those "high functions and almost sovereign powers" which at least some of the framers intended it to have. The power to tap all the really productive sources of revenue was in the hands of the Federal Government.

On the other hand, there was the patent failure of the great general projects of the Dominion to meet what the provinces deemed to be their particular interests. There was the provincial revolt, focused by the provincial conference of 1887, which significantly demanded a drastic reduction of federal powers. There were straitened provincial governments representing large bodies of opinion and demanding greater revenues.

The preamble of the British North America Act announced the formation of a federal union, but it was not clear how far this was consistent with the wide general powers conferred on the Dominion by the opening words of section 91. Dominion-provincial friction was not lessened by these seeming obscurities in the constitution. It was becoming vital to know what the constitution meant and whether it could be harmonized with the realities which had appeared. In this crucial decade, the Privy Council began to give its first important decisions on the British North America Act. By the end of the period under review, the main lines of the working constitution had emerged through these decisions. It is therefore necessary to turn to them to see how the constitution was moulded by their influence.

It would be difficult to say how far these decisions influenced the concessions made by the Federal Government. At any rate, some of the earliest of these cases bore on the nature of the provincial governments and their relation to the Dominion and to the Crown. In particular, decisions in 1883 and 1892 denied some of the main tenets of the Macdonald school. In *Hodge* v. *The Queen,* in 1883, their Lordships, by implication, denied that the provincial legislatures were inferior bodies. They held that, within the limits of subjects and areas as prescribed by section 92, "the local legislature is supreme and has the same authority as the Imperial Parliament or the Parliament of the Dominion, would have had under like circumstances"[20] to confide powers to bodies of its own creation.

In *Liquidators of the Maritime Bank* v. *Receiver-General of New Brunswick* in 1892, it was necessary to decide how far the provincial Executive was entitled to exercise the ancient prerogatives of the Crown. In answer to the argument that the British North America Act had severed all connection between the Crown and the provinces and reduced the latter to the rank of Liverpool or Manchester, the Privy Council replied that the provinces were not subordinated to the Federal Government or depreciated to the level of municipal institutions. The supremacy of the province in its field of jurisdiction was reiterated. Their Lordships were pressed to say that, as the Lieutenant-Governor was appointed by the Dominion, he was purely a creature of the Dominion. Lord Watson denied this conclusion saying that the Governor General, in appointing, was acting for the Queen and that a "Lieutenant-Governor, when appointed, is as much the representative of Her Majesty for all purposes of provincial government as the Governor-General himself is for all purposes of Dominion government".[22]

These decisions magnified the provinces and struck at the theory that they were merely a superior kind of municipal institution. They also raised acutely the question of how far the enactments of a legislature endowed with the same kind of supremacy as the Imperial Parliament should be subject to an unrestricted power of disallowance. These decisions, at least, made it harder for the Federal Government to maintain its positions and foreshadowed the steep decline in the use of the powers of reservation and disallowance which came in succeeding years.

A detailed review of the Privy Council decisions of this period would be out of place here. But there were several cases of historic importance in determining the lines of constitutional development which must be considered. In 1882, the Privy Council had to decide whether the Canada Temperance Act was within the powers of the Dominion. This Act forbade the sale of intoxicating liquor under penalty of fine and imprisonment in those municipalities which exercised the "local option" of applying its provisions.

Naturally, it was argued that this prohibition would interfere with property and civil rights in

[20] (1883) 9 A.C. 117, at p. 132.
[22] [1892] A.C. 437, at p. 443.

the local areas where it was adopted. However, the Act recited the desirability of uniform legislation promoting temperance throughout the Dominion and the Privy Council concluded that the traffic in liquor was being dealt with as a matter of public order and safety and not in relation to the aspects of property and civil rights which were admittedly involved. They decided that general liquor legislation so conceived was exclusively within the general power of the Federal Parliament "to make laws for the peace, order and good government of Canada". General legislation, genuinely "deemed to be necessary or expedient for national safety or for political reasons" or "designed for the promotion of public order, safety or morals", was held to fall within the general power of section 91. Of course, in almost every case, such legislation would "in some incidental way, affect property and civil rights". Thus, "the true nature and character of the legislation in the particular instance under discussion must always be determined in order to ascertain the class of subjects to which it really belongs".[24]

This decision asserted the clear primacy of the "peace, order and good government" clause over section 92 and argued the validity of all federal laws dealing with general and national aspects of any subject matter even though that subject matter, in its local aspects, might be within the enumerations of section 92.[29] However, it left the criterion of what might be "necessary or expedient for national safety or for political reasons" and of what might be "designed for the promotion of public order, safety and morals", vague and unsettled. Such questions as these could only be determined by reference to the political, economic and social conditions of the time and to certain broad considerations bearing on the problem as to what it is proper for governments to try to do.

The decision did not explain how "the true nature and character of the legislation in the particular instance" was to be determined. There were only two alternatives. Either the existence of that urgent general or national aspect which was to justify untrammelled federal legislation under the "peace, order and good government" clause should be decided by the court before which the validity of the legislation was raised, or it would have to depend on the simple assertion of national urgency by the Federal Parliament.

In the first event, the court would be required to say whether the federal legislation in question had such a general or national aspect—in short, whether, in view of all the circumstances, the legislation might conceivably be desirable in the national interest. But this is a question which the courts always dislike to answer on the sound ground that it is not a question of law at all. The answer, if given, would inevitably depend upon the temperament of the judge and his personal views on public policy. Judges, like other people, differ profoundly in their views on public policy and their decisions would become essentially unpredictable. The hope of drawing a clear line between the legislative sphere of the Dominion on the one hand, and that of the provinces, on the other, would disappear. Moreover, because the principal test of the validity of provincial and Dominion legislation would be the judgment of the court on large issues of expediency and public policy, the final court of appeal would become the arbiter of public policy rather than the guardian of the constitution and, therefore, the storm-centre of Dominion-provincial disputes.

The court might escape from this invidious task by limiting itself to the question of whether the Federal Parliament had decided, in good faith, that general and national aspects were involved. Careful reading of *Russell* v. *The Queen* gives some reason for thinking that the personnel of the Privy Council in that case conceived its duty to be discharged by this limited scrutiny. In the nature of things, it would be a rare case where bad faith on the part of the Federal Parliament could be established and therefore the first alternative might, in practice, come to little more than the second, which is now to be considered.

The second alternative would be that the bare assertion by the Federal Parliament of a general or national aspect in the subject matter of the legislation would, of itself, justify the legislation under the "peace, order and good government" clause. That clause would then confer tremendous power on the Federal Parliament, giving it, as Macdonald had proposed, "the general mass of sovereign legislation".[31] The exclusive sphere ensured to the provinces by section 92 might, if the Dominion so desired, become very small indeed. The power of the Dominion Parliament under the "peace, order and good government" clause would become so overwhelming that the federal character of the constitution would be open to grave doubt. Indeed, under these conditions, the constitution in its working, would approach the legislative union which

[24] *Russell* v. *The Queen* (1882) 7 A.C. 829, at pp. 838-40.

[29] Although *Russell* v. *The Queen* is frequently cited in the courts, the general principle which it lays down has not been followed and it must be regarded as virtually over-ruled by later decisions.

[31] *Confederation Debates*, p. 41.

some of the Fathers desired but which, as they recognized, they could not secure by agreement.

These implications of *Russell* v. *The Queen* must be kept in mind and related to the growing revolt of the provinces against the paternalism of the Dominion when considering the case now to be discussed. "The Local Prohibition Case",[32] as it has come to be called, which was decided in 1896, is the most important case in the period, and one of the most significant of all interpretations of the British North America Act by the Privy Council. In it, the Privy Council upheld the validity of the Ontario Temperance Act which provided for Ontario a structure of regulation of the liquor traffic similar to that which the Canada Temperance Act provided for the Dominion as a whole.

The technique of interpretation used to reach this result need not be discussed here. It is sufficient to say that while Lord Watson held that the Dominion, relying on the enumerated heads of section 91, could validly enact legislation which affected subjects enumerated in section 92, he also declared that the Dominion, when legislating under the general "peace, order and good government" clause, "has no authority to encroach upon any class of subjects which is exclusively assigned to the provincial legislatures by s. 92". He stated that the exercise of legislative power under the general clause of section 91 must be "strictly confined to such matters as are of unquestionably Canadian interest and importance", admitting that "some matters, in their origin local and provincial, might attain such dimensions as to affect the body politic of the Dominion and to justify the Canadian Parliament in passing laws for their regulation or abolition in the interest of the Dominion".[34] Under the authority of this decision, the general clause of section 91 has come to be regarded as justifying little more than emergency legislation in the stress of great national crises.

While not challenging the correctness of *Russell* v. *The Queen,* this decision struck directly at the reasoning on which it was based. It denied the primacy of the "peace, order and good government" clause of section 91 over the enumerations of section 92 and as a result Dominion jurisdiction became, for most purposes, restricted to the specific heads enumerated in section 91. In the main, interpretation of the legislative powers of the Dominion and the provinces settled down to a competition between the specific enumerated heads of sections 91 and 92. In this competition, the provinces enjoyed an advantage because section 92 contained two heads capable of a general and inclusive signification, *viz.,* "Property and Civil Rights in the Province" and "generally all Matters of a merely local or private Nature in the Province" while section 91 contained only one such head, "the Regulation of Trade and Commerce" and, as will be pointed out below, it received a restricted interpretation. Thus the stage was set for the subsequent course of interpretation which has provoked the comment, in recent times, that the residuary powers under the constitution are now to be found in section 92.

There are some who believe that the Local Prohibition Case involved a textual violation of section 91 of the British North America Act.[35] Logical exposition, limited to sections 91 and 92, might lead to that conclusion. But it must be remembered that, according to the preamble of that Act, what was desired by the provinces was a federal union. It has been pointed out that the decision in *Russell* v. *The Queen,* which, in practical effect, was over-ruled by the Local Prohibition Case, would have imperilled the federal character of the union if it had become the ruling decision. There seems to be no doubt that this consideration weighed heavily with Lord Watson. In an earlier case, he had pointed out that "the object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a federal government . . . each province retaining its independence and autonomy".[36] In justifying his construction of sections 91 and 92 in the Local Prohibition Case, he made the following significant statement:—

> "To attach any other construction to the general power which, in supplement of its enumerated powers, is conferred upon the Parliament of Canada by s. 91, would, in their Lordships' opinion, not only be contrary to the intendment of the Act, but would practically destroy the autonomy of the provinces. If it were once conceded that the Parliament of Canada has authority to make laws applicable to the whole Dominion, in relation to matters which in each province are substantially of local or private interest, upon the assumption that these matters also concern the peace, order, and good government of

[32] *Attorney-General of Ontario* v. *Attorney-General of the Dominion,* [1896] A.C. 348.

[34] *Ibid.,* pp. 360-61.

[35] The most cogent and complete statement of this view is to be found in the *Report pursuant to Resolution of the Senate to the Honourable the Speaker, by the Parliamentary Counsel relating to the Enactment of the British North America Act,* Ottawa, 1939. For criticism see V. Evan Gray, *Canadian Bar Review,* 17, p. 309.

[36] *Liquidators of the Maritime Bank* v. *Receiver-General of New Brunswick,* [1892], A.C. 437 at pp. 441-2.

the Dominion, there is hardly a subject enumerated in s. 92 upon which it might not legislate, to the exclusion of the provincial legislatures."[37]

It may be that the insight which guided his decision was solely derived from a theoretical analysis of the requisites of a federal state. It may be that he was also aware of the growing provincialism, then assailing the pretensions of the Federal Government. At any rate, he perceived and stated the lines of what he regarded as a tolerable compromise between Dominion power and provincial claims in the Canada of his day. And compromise is always the essence of the federal state.

It is necessary to notice briefly a foreshadowing in this period of the limited interpretation later given to the Dominion power under head 2 of section 91, "the Regulation of Trade and Commerce". In a case before the Privy Council in 1881, the question of the meaning to be attached to this phrase was considered. Their Lordships pointed out that the words "regulation of trade and commerce", in their unlimited sense are sufficiently wide, if uncontrolled by the context and other parts of the Act, to include every regulation of trade . . . down to minute rules for regulating particular trades".[38] By a process of textual criticism for which the enumerated heads of section 91, taken as a whole, give some warrant, they reached the conclusion that the words were not used in their unlimited sense,[39] and suggested limitations which were later adopted and pushed still further by the courts. The case also made a significant contribution to the interpretation of head 13 of section 92, holding that, in the phrase "Property and Civil Rights in the Province", the expression "civil rights" includes rights arising from contract as well as rights directly maintained by the law itself such as the status of persons.

One other case, relating to the taxing power of the provinces, requires to be considered. Section 92 gave the provinces a power of "Direct Taxation within the Province in order to the raising of a Revenue for Provincial Purposes". In 1882, the Quebec Legislature passed a statute imposing on certain commercial corporations, a tax the amount of which varied with the paid-up capital and the number of places of business. A number of corporations resisted collection of the tax and an appeal was finally taken to the Privy Council.[40] Their Lordships were obliged to decide whether or not it was a direct tax.

"Direct taxation" is a phrase which lacks precise signification. From an economic point of view, it is impossible to say that any particular tax is direct in its final incidence because of the opportunities which may exist for shifting its burden. Economists would agree that a corporation tax generally is an indirect tax because of the ease of shifting it. However, the Privy Council felt bound to find a criterion for the validity of provincial taxation which would not involve the impossible task of trying to find out, in each case, whether the burden had, in fact, been shifted.

Adopting from John Stuart Mill a statement that "a direct tax is one which is demanded from the very persons who it is intended or desired should pay it", they inferred from the legislation itself that the legislature must have intended it to be finally borne by the very corporations from whom it was demanded and held it to be "direct taxation" within the meaning of section 92. The decision was one of great significance. From the point of view of the provincial governments it made available an important and increasing source of revenue since corporate enterprise was expanding rapidly. From the point of view of the economy as a whole it was the legal basis of the growth of much of the duplication, confusion and uneconomic types of taxation which today weigh oppressively on the national income.

2. Public Finance, 1867-96

The Financial Settlement on Trial—an extremely tight fit for the Maritimes and revisions of the formula

Confederation began auspiciously for the public finance operations of the Dominion. World prosperity spurred on a large program of development. Imports rose rapidly and the taxation system, geared so sensitively to import trade,

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[37] *Attorney-General of Ontario* v. *Attorney-General of the Dominion*, [1896], A.C. 348 at p. 361.

Lord Watson assumes, it is to be noted, that, if *Russell* v. *The Queen* remained the ruling decision, the Privy Council would shrink from deciding whether particular Dominion legislation might be "necessary or expedient for the national safety or for political reasons" and would in practice, leave that question to the discretion of the Dominion Parliament—in other words, the second alternative discussed above would rule. In these circumstances, it is not surprising that the Privy Council exerted itself to make the specific and more concrete enumerated heads of section 91 the main test of the validity of Dominion legislation.

[38] *Citizens' Insurance Co.* v. *Parsons* (1881), 7 A.C. 96, at pp. 112-13.

[39] Their reasons for thinking so are given in *Bank of Toronto* v. *Lambe*, (1887) 12 A.C. 575 at p. 586, where it is said that in Parsons Case, "it was found absolutely necessary that the literal meaning of the words ["regulation of trade and commerce"] should be restricted in order to afford scope for powers which are given exclusively to the provincial legislatures."

[40] *Bank of Toronto* v. *Lambe*, (1887), 12 A.C. 575.

responded in an impressive manner. Customs receipts rose from $9 million to $14 million, and excise revenues, from luxury consumption, from $3 million to $5½ million between 1867 and 1874. This increase of more than 60 per cent in taxation revenues in a short period of seven years made possible the "rounding-out" of the Confederation scheme already discussed. The Dominion Government was proving to be a magnificent financial instrument for creating the new British North America of which the Fathers had dreamed.

On the other hand, there was a wide variation in the financial condition of the provincial governments in the early years after Confederation. At first, Quebec was in a relatively easy, and Ontario in an even more comfortable position, while New Brunswick, and particularly Nova Scotia, were, from the beginning, in very straitened circumstances. The allocation of functions and revenues discussed at Quebec in 1864 meant roughly that the provinces would be left with $1½ million of local revenues to meet an estimated $4 million of local outlay while the Dominion was to be given $12 million in revenue to meet less than $9 million in outlay. It was proposed to balance the provincial budgets by transferring $2½ million to the provinces in the form of federal subsidies. The total amount of the agreed subsidies was sufficient to bridge the estimated gaps but the current conception of equity which required calculation of subsidies on a per capita basis glossed over real differences in need arising from disparate circumstances, unconnected with differences in population. The result of the settlement was that Ontario and Quebec got subsidies greater than their needs at the time. For several years, Ontario had considerable surpluses while the position of Nova Scotia became intolerable as early as 1868.

As already mentioned, Tupper had promised at Quebec that Nova Scotia would make ends meet somehow on a subsidy of 80 cents per capita, yielding $264,000. Even when supplemented by the grant of $60,000, in support of legislature and government, agreed on at London, Nova Scotia was still unable to honour Tupper's promise. The "better terms" agreement of 1869 gave the Province an additional $140,000 of which $83,000 was for a ten year period only.

In 1873, the Dominion assumed the "excess debt" of Ontario and Quebec. The consequent proportionate increase in the debt allowances of the other provinces afforded some further relief to Nova Scotia. However, with the expiry of the temporary grant in 1877 and the withdrawal by the Province of capital sums on debt allowance account, Nova Scotia's subsidy, in spite of other minor additions, had fallen to $433,000 by 1884, at which figure it remained until 1906. The revenues from public domain did not expand as expected, municipal organization lagged and political considerations discouraged the introduction of direct taxation. Appeals to Ottawa for further subsidy increases were fruitless and throughout the period under review, Nova Scotia was seriously cramped by its inelastic revenue system.

New Brunswick had made a rather better bargain at Confederation and also improved its position slightly when it commuted its export duty on lumber for a subsidy of $150,000 a year. But apart from these minor reliefs and particularly after its special temporary grant expired in 1877, its position was on all fours with that of Nova Scotia. Indeed, it was more heavily dependent on the Dominion subsidy for its revenues than was Nova Scotia.

The impossibility of dealing fairly with dissimilar areas and conditions by use of a common formula was revealed again in the financial settlements with the new provinces which entered the union early in this period. The Red River Settlement which had chafed under the rule of the Hudson's Bay Company but lacked experience in managing its own affairs suddenly blossomed into the Province of Manitoba in 1870. In substance, it was a creature of the Dominion Government without a will of its own and consequently the formula used in calculating the amount of subsidies for the four original provinces was strictly applied to it. As a result of the arrangement with Nova Scotia in 1869, the debt allowance had been raised from $25 to $27.77 per capita. Manitoba's population of 12,000, of whom less than 2,000 were whites, was generously assumed to be 17,000. Thus the Province was given the subsidy of $67,000 to which it was entitled according to the formula.

Other provinces were expected to supplement their revenues from the public domain but Manitoba's lands were reserved by the Dominion to aid the federal policy of development. Yet the Province was not compensated for their retention. Lacking taxable capacity and having virtually no other revenue, the province was unable to support its governmental structure and it is not surprising that the annual subsidy was increased on four separate occasions during the next fifteen years.

Actual need and political expediency brought a considerable modification in the application of the formula to British Columbia and Prince Edward

Island. Strict application of the formula to British Columbia in 1871 would have given a subsidy wholly inadequate either to replace the customs revenue which was being surrendered to the Dominion or to meet the financial needs of the Province. British Columbia contended that its customs collections were equal to the amount of customs revenue derived from 120,000 people in the Eastern Provinces and suggested that the 9,000 whites and the 25,000 Indians and Chinese in the Province be regarded, for the purpose of subsidy, as a population of 120,000 and that the subsidy be calculated accordingly. This was not acceptable to the Dominion but another device was invented which served much the same purpose and British Columbia was brought into the union with a subsidy of $216,000 a year instead of the $75,000 which a rigid application of the formula to the actual population would have given.[41]

In 1873, Prince Edward Island secured a settlement involving a more radical revision of the formula. The public debt of the Province had rushed upward between 1867 and 1873. In order to lift the burden of debt charges from the Province, it was necessary to calculate the debt allowance at $50 per capita. In addition, the fact that the Province had no public lands induced the Dominion to give a further subsidy in lieu of lands. The original formula would have yielded a subsidy of only $45,000 but with these modifications, the Province secured an annual grant of four times as much.

Within a short period of time, these settlements in turn proved inadequate. In the eighties, Quebec also got into financial difficulties and, by 1887, all the provinces except Ontario were clamouring for an increase in subsidies. No further alterations were made during this period. The reasons why these adjustments and concessions, which had seemed adequate at the time, failed to meet the fiscal needs of the provinces will be considered later when the provincial revenues and expenditures are reviewed.

The Finances of the Dominion—concentration on economic development

The Federal Government had taken over the pre-Confederation debts of the provinces and was expected to finance the new program of development, to provide for defence and to assume the major burden of general government and legislation. The budgets of this period show that these expectations were being substantially realized. Virtually all the Dominion debt accumulated between 1867 and 1896 was incurred for development. By paring expenditures on general government and taking advantage of its freedom from large expenditures for defence which weighed so heavily on European governments, the Dominion was able to concentrate its efforts on this single activity. In 1874, at the end of the first spurt of development, debt charges and current outlay on transportation, agriculture and public domain accounted for half the current expenditures. The building of the Canadian Pacific in the early eighties added considerably to the total liabilities. In the general depression which descended again after completion of the road, the Dominion found its debt charges embarrassing and did not undertake any further large developmental program in this period. Nevertheless, in 1896, these same items still absorbed almost half the current outlay, while defence and general government accounted for only 6 and 28 per cent respectively. The traditional role of government in British North America as an agency for creating conditions in which private enterprise might thrive had been assumed by the Dominion. In this respect at least, the Dominion was living up to the original conception of its purpose.

But the ability of the Dominion to carry through the developmental program fluctuated greatly because of its heavy dependence on customs revenue. Until the Great War (1914-18), the financial fortunes of the Federal Government were directly and completely linked to the ups and downs of international trade and investment. As revenues rose with rising imports, the Dominion embarked on large developmental expenditures. This involved the investment of foreign capital, which entered the country in the form of goods. The increase in imports at once swelled the customs revenue. Meanwhile, investment stimulated internal activity, increasing employment, raising wages and consequently improving domestic trade. This increase in domestic trade boosted excise revenues.

Therefore, one of the first effects of a program of development was to fill the Dominion treasury and the government tended to forget that it increased the debt as well. In an optimistic mood, it raised its commitments for development still further. As long as investment funds were forthcoming, this procedure could continue almost indefinitely. However, because the flow of investment was certain to be checked at some time, a thoroughly false position was being built up.

[41] For extended discussion of subsidy arrangements with British Columbia see Book II, Section F, Ch. II.

The moment the inflow of capital ceased, imports fell sharply, customs revenue slumped, employment declined, the consumption of liquor, tobacco and other luxuries fell away, excise revenues collapsed and the Dominion suddenly found itself with a heavy deficit. Meanwhile, the outlays on development had substantially increased debt charges, thus adding to the rigid and uncontrollable expenditures. In the sequel, it became more difficult to balance the budget by the familiar methods of retrenchment and higher taxation.

The embarrassing stages of the first of these cycles coincided roughly with Alexander Mackenzie's tenure of office. The Ministry of Sir John A. Macdonald experienced a similar cycle in the eighties, which was initiated by the expansion attending the construction of the Canadian Pacific railway. In the years 1881, 1882 and 1883, the Dominion enjoyed remarkable surpluses on ordinary account.[43] Relying on these temporary surpluses, the Government devoted a larger sum than ever before to public works (including buildings and harbours) in 1883-84 and embarked on a scheme of cash subsidies for railway construction. Then the flow of investment slackened, the peak surplus of over $8 million reported in 1884 was wiped out by rising expenditure a year later and by 1886 was converted into a substantial deficit.

The public finance system was still sufficiently flexible to enable Ministers of Finance, by increased taxation and economy, to balance their budgets in a short period. Deficits reappeared in the early nineties which were more difficult to wipe out. The persistent fall in prices due to economic stagnation affected seriously the yield of *ad valorem* customs duties. In 1895, customs receipts were $5½ million below what they had been in 1883, while debt charges and other government expenditures were slowly but stubbornly rising. Under such circumstances the enthusiasm for an aggressive program of development disappeared. The results of past efforts were disappointing in the extreme and now the Dominion could do little more than carry the commitments it had already undertaken.

The Straitened Circumstances of the Provinces—the growth of expenditures and the slowness of municipal development

The financial settlement at Confederation had left the provincial governments almost entirely dependent upon federal subsidies and the revenues from licences, fees and the public domain. It was expected that the receipts from the public domain would expand sufficiently to enable the provinces to extend their existing services to a growing population. Direct taxation was held to be impracticable and thus the expansion of activities would be restricted. Municipal organizations, it was expected, would assume an increasing share of the governmental burdens.

Municipal development lagged, however, except in Ontario. The Maritimes were slow to introduce a system to which they were not accustomed. Some progress was made in Quebec and Manitoba but very little in British Columbia. Failure to make rapid progress in this direction increased the financial difficulties of these provinces. In Central Canada, where urbanization was rapid, where the number of cities of over 10,000 in population doubled and the population of Montreal and Toronto doubled and trebled respectively in this period, municipal activities and expenditures expanded greatly. The provincial government of Ontario, and to a certain extent that of Quebec, derived considerable financial relief from the growth of local governments which provided a large share of the necessary services out of levies on real estate.

Although in most provinces municipal development was slow, provincial governments confined by their narrow revenue systems did not increase their expenditures greatly. Between 1874 and 1896, the total per capita outlay of all the provinces rose only from $1.69 to $2.20. This restraint on provincial outlay during a long period of depression was made tolerable by the nature of the economy of the time. The relative self-sufficiency of the family and local communities enabled individuals to weather the depression somehow without reliance on governments. Those who were unable to make adjustments in this way were forced into the stream of migration to the south where they were absorbed by the rapid industrial development and the expanding frontier of the United States. In the 1930's, when self-sufficiency had sharply declined and emigration was stopped, it proved to be no longer possible to hold down governmental expenditures in face of a prolonged major depression.

[43] An increase in customs receipts of $520,000 on a single group of commodities was largely attributed by the Minister of Finance to imports of locomotives, railway carriages and coal for the Canadian Pacific Railway.

TABLE 11.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT[a], 1874 AND 1896

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces and Dominion	
	1874	1896	1874	1896	1874	1896
Net Debt Charges	—	1,526	5,373	9,483	5,373	11,009
Justice, Legislation and General Government	2,564	4,274	4,651	8,024	7,215	12,298
Defence	—	—	1,331	1,627	1,331	1,627
Public Welfare	657	1,472	213	946	870	2,418
Education	1,421	2,003	—	—	1,421	2,003
Agriculture and Public Domain	726	951	930	990	1,656	1,941
Transportation	1,222	924	3,390	1,927	4,612	2,851
Subsidies to Provinces	—	—	3,753	4,238	—	—
Other	1,369[b]	2	529[c]	1,141[c]	1,898	1,143
Total	7,959	11,152	20,170	28,376	24,376	35,290
Total Per Capita (Dollars)	1·69[d]	2·20	5·18	5·59	5·91[d]	6·96

[a] Compiled from the Public Accounts of the Dominion and the Provinces.
[b] Includes a distribution of surplus to the municipalities in the Province of Ontario of $1,361,000.
[c] The post office revenues were netted against the post office expenditures and only the net operating deficit is included.
[d] Excludes Ontario surplus distribution to municipalities.

While the provinces were not greatly burdened during this period by their responsibilities for public welfare, there were other significant developments which began to place a strain on their revenue structures. The most important of these was the growth of debt charges. When the debts of the provinces were taken over by the Dominion in 1867, it had been thought that the provinces would not again incur any considerable public debt. But all the provincial governments except that of Ontario had got into debt before 1896 mainly as a result of developmental expenditures of their own. The topography of Nova Scotia, New Brunswick and British Columbia led to capital expenditures on railways, roads and bridges which could not be met out of restricted current revenues, and the slow development of municipal institutions in these provinces prevented any large shifting of burdens to municipalities. The Dominion curtailed its developmental program after the building of the Canadian Pacific railway but the depression did not prevent Quebec and Manitoba from assisting railway construction. Quebec, in particular, attempted a vigorous railway and colonization policy. By 1896, its debt charges amounted to two-thirds of the debt charges of all the provinces at that date. As the weight of debt charges increased, it pressed against the confines of the revenue system.

On the other hand, Ontario took advantage of its freedom from debt charges to expand other services. With an adequate network of railways and a mature municipal system which carried much of the cost of local roads and public works, the provincial government was able to increase considerably its assistance to education and public welfare. In the early nineties when the increased outlay on these services threatened to raise total expenditures above the yield of the existing revenue sources, the Province moved into the field of direct taxation.[45] However, for all the provinces taken together the amounts spent on education and public welfare during this period did little more than keep pace with the rise in population.

Total current expenditures of the provincial governments on transportation fell slightly between 1874 and 1896 and the only marked increase, aside from debt charges, was in the cost of the administration of justice and general government. This was due, in part, to the extension of government services to a wider area as well as to an increased population. The general government overhead varied widely as between provinces. It rose more steeply in Quebec than in Ontario and expenditures of Manitoba and British Columbia on this item more than trebled in this period. British Columbia with one-fifteenth of the population of Ontario was spending two-thirds as much as Ontario on general government and administration of justice. To a considerable extent, this disparity was due to the obstacles of topography and the lack of a developed municipal system in British Columbia.

[45] The preamble of the statute which first imposed succession duties in Ontario recited the heavy burden of expenditures for public welfare as the reason for the levy. See *Statutes of Ontario*, 1892, c. 6.

The Provinces embark on Direct Taxation—corporation taxes and succession duties

In each of the seven provinces, despite the smallness of the increases in expenditure, the total requirements exceeded the yield of the revenue sources on which they had relied at the time of entering the union. Total provincial revenues from public domain doubled and those from licences and fees almost trebled between 1874 and 1896 but, in absolute terms, these additions were small. Even when supplemented by the modest increases in subsidies to some provinces, they did not suffice to meet the demands for expenditure. Before the end of the period all of the provinces had resorted to direct taxation of some kind. In 1896, corporation taxes, succession duties, property and income taxes were already providing about 10 per cent of total provincial revenues. Beginning in 1873, British Columbia pioneered the field of direct taxation, trying real and personal property taxes, poll tax and income tax as well as succession duties before the end of the period.[46] Quebec, in 1882, was the first province to attempt to levy a corporation tax, and New Brunswick followed shortly afterwards. All seven provinces were levying succession duties in 1896. British Columbia and Prince Edward Island attempted to supplement their revenues by an income tax and, lacking a developed municipal system, both imposed provincial taxes on real property. Most of these ventures into new fields of taxation date from the early nineties, after unsuccessful demands for subsidy revision.

Behind the search for revenues lay the fact that the provincial governments had turned out to be more important agencies for collective action than the framers of the financial settlement had anticipated. Their per capita expenditures increased and their revenues from public domain did not expand sufficiently to bridge the gap. In efforts to combat the depression, they tried to push development on their own frontiers, thus incurring debts and debt charges. Failure to secure a generous revision of subsidies led to a general introduction of direct taxation. This was the most significant development in public finance in this period. The movement of the provinces into the fields of corporation taxes and succession duties was later to have far-reaching and unfortunate effects upon the whole structure of Canadian public finance.

TABLE 12.—GOVERNMENT REVENUES ON CURRENT ACCOUNT[a], 1874 AND 1896

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces and Dominion	
	1874	1896	1874	1896	1874	1896
Federal Subsidies	3,842	4,301	—	—	—	—
Taxes:						
Customs	1	—	14,443	19,479	14,444	19,479
Excise	—	—	5,617	9,170	5,617	9,170
Corporation Taxes	—	156	—	—	—	156
Succession Duties	—	428	—	—	—	428
Income Taxes on Persons	—	13	—	—	—	13
Taxes on Real Property	42	180	—	—	42	180
Taxes on Personal Property	—	108	—	—	—	108
Poll Taxes	—	65	—	—	—	65
Other Taxes	—	4	213	—	213	4
Sub-total	43	954	20,273	28,649	20,316	29,603
Licences, Permits, Fees, Fines and Penalties [b]	651	1,756	14	266	665	2,022
Public Domain	1,413	2,801	351	299	1,764	3,100
Sales of Commodities and Services	97	63	738	543	835	606
Other	619	97	225	201	844	298
Total	6,665	9,972	21,601	29,958	24,424	35,629

[a] Compiled from the Public Accounts of the Dominion and the Provinces.
[b] Including Liquor Licences.

[46] Ex. 172, Brief of B.C., Pt. V, Table 124.

Summary, 1867-96

In the first thirty years of Confederation, the physical framework of the Dominion had been completed and the basic national economic policies for the future had been adopted. Despite these achievements, the period was one of trial, discouragement and even failure. The national economic expansion failed to materialize. The long depression naturally weakened the newer and more tenuous loyalties and the Federal Government which, at first, undertook its appointed task of national leadership with vigour and assurance floundered and seemed to have lost its way. Its hesitations helped to undermine its claim to dominate the provinces. Provincial loyalties, on the other hand, showed an unsuspected strength and Privy Council decisions confirmed the provinces in possession of a large sphere of action beyond the reach of the Dominion. But the provinces were caught in a financial strait jacket from which they laboured, as yet unsuccessfully, to free themselves. The provincial governments lacked financial resources, while the Dominion failed to evoke a spirit of national loyalty. In these circumstances, it was by no means clear, at the end of the period, that the equilibrium necessary to a working federalism could be reached. It was not clear whether room could be found for the free play of provincial aspirations without denying to the Dominion the confidence and loyalty it needed for the advancement of common national purposes.

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Chapter III

THE WHEAT BOOM, 1896-1913

1. National Economic Expansion and Integration

Success at Last—the turn in world circumstances brings a settlement boom on the Prairies

For twenty-five years the new nation had languished and even the most sanguine were troubled by forebodings about the success of Confederation. Then a fortuitous conjuncture of world circumstances brought with a rush the fulfilment of hopes long deferred. Life began to stir in the frame erected years earlier for a transcontinental economy. Directed by the national policies of all-Canadian railways, western settlement and protective tariffs, it grew with a rapidity surpassing all expectations. A vast and sudden transformation was wrought by the magic of wheat. The wheat boom brought a flood of settlers into the West and created two new and flourishing provinces. It precipitated a new era of railway development and spurred on the industrialization of Central Canada. Immense capital expenditures were necessary to equip the West and the growing urban and metropolitan areas of the East. Wheat worked a new integration of economic life and linked together the fortunes of the different regions.

In the optimism and prosperity of the day, the Federal Government recovered the initiative it had lost in the stagnation of preceding years and plunged again into the work of national development which the Fathers had assigned to it. The boldness and success of its new enterprises stimulated national pride. The development of the West was a national achievement and the participation of all areas in a common effort fostered a new sense of nationhood. Sons and daughters of the Maritimes and Central Canada migrated to the plains and built up the West, thus forging innumerable links between the older Canada and the new. Expansion on the distant frontier either solved or postponed the problems of provincial adjustments and regional interests. The Federal Government did not resume the attempt to dominate the provinces which had marked its earlier period of leadership and Dominion-provincial friction died almost completely away. Local and cultural diversities were partly reconciled and partly overshadowed in the dazzling success of the western development.

The Great Depression and the long period of economic stagnation in Canada came to an end in 1896. Prices, which had fallen 40 per cent (Statist Index) since 1870-75 began to rise. This reversal of trend was primarily due to economic factors operating throughout the entire world. The early nineties marked the beginning of a remarkable increase in the world's output of gold. During 1896-1914, as a result of the discovery of the deposits of the Transvaal and improved mining processes, world production was over three times as great as that of the eighteen preceding years and the world's stock of gold rose by 50 per cent. The absorption of this large increase in supplies by monetary systems in the days of the freely operating gold standard, and the rapid expansion of banking institutions, were important factors in the persistent and world-wide rise in prices.

The prices of raw materials, including foodstuffs, rose more rapidly than those of manufactures, especially iron and steel. This fact had immense significance for Canada. After 1896, the industrialization of Western Europe and the United States proceeded at a pace which amounted almost to a second industrial revolution. In the United Kingdom, France, Germany and the United States, the output of pig-iron and coal doubled between 1895-99 and 1910-14. The rapid growth of population, combined with the crowding of people into large industrial cities, created a rising demand for foodstuffs, particularly cereals. The full impact of this demand was felt in Canada. Hitherto the American West had been the granary for the expanding industrial population of Europe. But most of the good American lands had been taken up and it was natural that further demands for grain would push the frontier into the open plains of the Canadian Northwest.

The economic circumstances were unusually favourable. Selling prices were rising and costs were either falling or rising more slowly. Between 1896 and 1909-13, as is shown in Table 13, the average of the prices of all Canadian exports increased 32 per cent, that of grains and flour

TABLE 13.—CHANGES IN PRICE AND COST TRENDS, 1870-1913

	Percentage Decrease	Percentage Increase
	1870-75 Average to 1896	1896 to 1909-13 Average
General Level of Canadian Wholesale Prices [a]	− 35	+ 48
Canadian Selling Prices—		
Exports [b]	− 4	+ 32
Grains and Flour [a]	− 40	+ 62
Wheat-Liverpool	− 46	+ 33
Canadian Costs—		
Imports [b]	− 35	+ 24
Imports of Iron and Steel Products [b]	− 34	+ 6
Prices of Manufacturers [c]		+ 20
Ocean Freights [d]	− 47	+ 7
Interest Rates [e]	− 23	+ 28

[a] Michell, H., "Statistics of Prices," *Statistical Contributions to Canadian Economic History* (Toronto, 1931).
[b] Taylor, K. W., "Statistics of Foreign Trade," *Ibid.*
[c] Dominion Bureau of Statistics.
[d] Isserlis, L., "Tramp Shipping, Cargoes and Freights," *Journal of the Royal Statistical Society*, Part I, 1938, p. 122.
[e] Yield on U. K. Consols.

increased 62 per cent and the price of wheat at Liverpool increased 33 per cent. On the other hand, the average of the prices of Canadian imports rose only 24 per cent and that of manufactured goods 20 per cent in the same period. A development of probably more far-reaching significance was the phenomenal decline in ocean freight rates. In 1896 ocean rates were only about half of what they had been during 1870-75 and they continued to fall until 1908, while wholesale prices were rising.

The great decline in transportation costs, the increase in the prices of cereals and the relative cheapening of the factors which entered the costs of production, i.e., manufactured goods and imports in general, suddenly brought the virgin resources of the Prairies within the scope of the international market and within the range of profitable exploitation. Capital and capital goods, the essential means for making this exploitation possible, were cheaper than ever before. The prices of iron and steel, which largely determined the cost of railways and of the implements of production, were falling steadily in relation to the values of the products of the farm. Interest rates were the lowest in recorded history and the British investor was willing to lend overseas in unprecedented volume. "At last Canada's hour had struck."

The favourable conjuncture of events after 1896 suddenly made the vast Canadian Prairie attractive to settlement. Another set of circumstances made it available almost as soon as its attraction was felt. The comparative uniformity of conditions, the concentration on a single crop and the ease with which transportation facilities could be provided and cultivation begun in a grassland terrain, meant that practically the whole region became at once profitable and open for development. Homes did not have to be hewn out of the forest nor clearings widened by slow and tedious stages. The ready assistance of governments and the painfully acquired experience of the early settlers had by 1900 largely solved the problems of production. The spring wheat culture, fall ploughing, and summer fallowing, were the major adaptations of farming methods to the semi-arid conditions and the short growing season of the Prairies. Henceforth, the speed of development depended upon the availability of men and capital. The Federal Government threw its energies and resources into the provision of both.

All the unoccupied lands in the Northwest were under the control of the Dominion. Hence the occupation of them was directed by the national purpose of rapid and unhampered settlement. With the termination of the railway land grant system in 1896, the free homestead became the mainstay of Dominion land policy. Out of a total of about 140,000,000 acres available for settlement, nearly 60,000,000 were set aside for free homesteads. In a period of rising prices, rising land values and cheap credit, the lure of these free lands in the "last, best west" was irresistible. The vigorous immigration policy of the Dominion, the efforts of the railways and "enterprising" land companies accelerated the rush from Europe and the United States to seize the new opportunities of the Canadian Prairies. The inflow of settlers began in earnest soon after the opening of the century and during the subsequent years of the period, the land was taken up with amazing rapidity. "An area larger than Vermont was 'entered' in free homesteads in 1909; twice the area of Connecticut in 1910; more than Delaware and New Hampshire in 1911; nearly the area of Maryland in 1912; and more than Massachusetts in 1913. . . ."[1] By the end of 1913, the rapid phase of western settlement was over. In so short a time, the frontier was pushed to its limits in almost all directions.

The occupation of the Prairie lands proceeded with little discrimination. There were no classifications of resources, no soil surveys, no climatic

[1] Chester Martin, *"Dominion Lands" Policy*, p. 519. (Canadian Frontiers of Settlement Series, Vol. II.)

records to guide either the government or the unwary settler. The policies and methods of the Dominion were mainly designed to serve the national purpose of filling the Northwest at once with as many people as possible. The selection of land was left largely to chance and to the devices which colonization agents, railways and land companies employed in their own immediate interests. The sectional survey, the railway land grant scheme, and pre-emptions illustrate a system designed for indiscriminate mass colonization[2] and it worked with almost mechanical perfection. Adjustment to the vagaries and failings of nature was left to time and bitter experience.

Prior to 1908, all the odd-numbered sections over the entire Prairie region were reserved for railway land grants. The railways were allowed to select their lands in areas "fairly fit for settlement". Under this clause nearly all the grants were taken up in the brown soil zone and in the wooded country of the Park Belt.

In 1908 when the location of the grants was completed, the whole area comprising the "dry belt" (southwestern Saskatchewan and eastern Alberta) which the "land-grant railways" had avoided was thrown open for free homesteads and pre-emptions. Up to that time settlement was largely confined to the park country and the tall grass plains. After 1908, the settlers induced by the pre-emption and deceived by a period of super-normal rainfall, swarmed into the dry area.

The ranching leases in the territory long thought to be fit only for grazing were terminated and the lands put under cultivation. "Instead of warning off the homesteader from areas of submarginal agriculture, it was thought necessary to warn off the rancher from encroaching upon the range of the free homestead, and to give the homesteader right of way in case of conflict between the two."[3] The flatness of the country, and the absence of forests and other obstructions facilitated extremely rapid settlement. Between 1910 and 1915, some 860 miles of railway were built south of the South Saskatchewan River. In the short space of about seven years, virtually the whole of the Dry Belt was occupied.

Whatever mistakes may have been made and resources wasted, the settlement of the Northwest was largely accomplished by 1913, and for the time being, at least, both the dry and the more humid areas had been brought into profitable production. Between 1896 and 1913, one million people moved into the three Prairie Provinces and the population increased from 7 to 20 per cent of the total population of the Dominion. The area of occupied land increased from about 10 million acres to 70 million acres and the production of wheat from approximately 20 million bushels to 209 million bushels. At the end of the period, the value of agricultural production reached a total of $300 to $400 million annually.

Settlement Boom makes National Economic Policies Effective—general expansion and national economic integration

The development of the Northwest within so short a time brought prosperity and rapid economic expansion to the rest of Canada. The settlement of the Prairies took place within the framework of the national policies of all-Canadian transportation and protective tariffs. The resolute application of these policies directed the growing demands for capital equipment, for manufactured goods, for distributive and commercial services into Canadian channels, thus bringing expansion in other parts of the Dominion.

The construction of the railways, the deepening of the canals and the improvement of the harbours necessary to transport the increasing volume of Western grain over Canadian routes, stimulated economic activity in the East and gave it a large share in the moving of western products to the markets of the world. The building of towns and cities on the Prairies, the equipment of the farms and the consumption demands of the population required a large quantity of manufactured goods. The protective tariff enabled Canadian manufacturers to capture the greater share of this new market, thus giving a tremendous impetus to industrialization in Ontario and Quebec, to the coal and steel industries of Nova Scotia and to the lumber industry of British Columbia.

The two national policies of all-Canadian transportation and protective tariffs, were closely related. The former made direct economic intercourse between the separate regions possible; the latter promoted East-West traffic; and, under the stimulus of Western expansion, the two together produced a remarkable degree of interdependence among the widely scattered and diverse communities of which Canada is made up. An economically loose transcontinental area was transformed into a highly integrated national economy.

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[2] For a discussion of this indiscriminate settlement and some of its results, see Ex. 236, Brief of the Edmonton Chamber of Commerce, pp. 19-22.

[3] Chester Martin, *op. cit.*, p. 526.

All-Canadian Transportation—the great policy of national development and the foremost object of federal finance; unbounded optimism and the birth of the railway problem

The Dominion's railway policy played a significant part, both in promoting the settlement of the Northwest and in making that settlement the basis of expansion in other regions of Canada. "Railways and continually improving transportation were as essential as rain and sun to progressive settlement on the Canadian prairie."[4] Prior to 1896, railway transportation in Western Canada was virtually controlled by the Canadian Pacific Railway. After the abandonment of the monopoly clause in the Canadian Pacific Railway charter in 1888, other lines were built and projected in southern Manitoba, principally those of the Northern Pacific; but there was little competition. In 1896, Mackenzie and Mann obtained their first railway charter and established the nucleus of that phenomenal enterprise, later to become known as the Canadian Northern. With the liberal guarantees offered by the Province of Manitoba which was ever anxious to encourage the construction of independent lines, the Canadian Northern rapidly acquired a network of railways on the Prairies. In 1902, it had 1,200 miles of line including a connection with Port Arthur.

While the relation between settlement and railway construction in Western Canada was immediate and direct, the influence of western settlement upon the transportation system in other parts of Canada was indirect but of far-reaching importance. The mounting volume of grain moving outward to the markets of the world and the increasing quantities of manufactured goods and equipment moving into the Prairies taxed the capacity of the existing facilities connecting the East with the West. This aroused the concern of the Dominion Government and inspired the imagination of railway promoters.

In the East, this growing traffic brought to the Grand Trunk its first period of real prosperity. In the West, the well-placed and economically-built lines of the Canadian Northern yielded increasing profits. Both systems were anxious to improve upon their good fortunes; the former by securing a direct connection with the western source of its expanding traffic; the latter by building a line to the East. The Dominion Government, alert to turn the commercial benefits of Prairie settlement to national advantage, was anxious to retain the flow of Western traffic within Canadian channels. Neither company could realize its ambition without the assistance of the Dominion. The nature and extent of the assistance given ensured that the extension of railway facilities would be in accordance with the aims of national policy and not necessarily in accordance with the conditions of economical and efficient transportation. As events later proved, the optimism of the period, the political exigencies and rival ambitions of the time made these two aims incompatible.

The increasingly rapid rate of settlement after 1902 spurred both the Dominion Government and the two railway companies into action. During the railway debates of 1903, Sir Wilfrid Laurier stated the Government's policy and the necessity of carrying it out immediately:—

> ". . . we cannot wait, because at this moment there is a transformation going on in the conditions of our national life which it would be folly to ignore and a crime to overlook; we cannot wait, because the prairies of the North-west . . . are now invaded from all sides by the white race. They came last year 100,000 and still they come in still greater numbers. Already they are at work opening the long dormant soil; already they are at work sowing, harvesting and reaping . . . We consider that it is the duty of all those who sit within these walls by the will of the people, to provide immediate means whereby the products of those new settlers may find an exit to the ocean at the least possible cost, and whereby, likewise, a market may be found in this new region for those who toil in the forests, in the fields, in the mines, in the shops of the older provinces. Such is our duty; it is immediate and imperative. . . . Heaven grant that it be not already too late; heaven grant that whilst we tarry and dispute, the trade of Canada is not deviated to other channels, and that an ever vigilant competitor does not take to himself the trade that properly belongs to those who acknowledge Canada as their native or their adopted land."[5]

In 1902, both the Canadian Northern and the Grand Trunk asked the Dominion for authority to carry out their plans to build a transcontinental railway. Attempts were made by the two companies and the Government to reach an agreement which would avoid the duplication involved in the construction of two additional lines across the continent, but they were without success. Under the prevailing optimism and political pressure, the Government did not insist and in the end gave generous assistance to both.

The original proposal of the Grand Trunk was to construct a line from Winnipeg to the Pacific Coast and then to link Eastern Canada with Winnipeg through the United States, via Chicago. When a charter for this route was refused by the Dominion, the Company proposed to build from North Bay and asked for assistance amounting

[4] W. A. Mackintosh, *Prairie Settlement: The Geographical Setting* (Toronto, 1934), p. 46.

[5] *Debates, House of Commons*, 1903, pp. 7659-60.

roughly to half the land and three-fifths of the cash subsidy paid to the Canadian Pacific Railway. The Government, however, feared this scheme would result in the diversion of the western traffic over the Company's lines to Portland rather than to Canadian ports. The expressed willingness of the Grand Trunk to connect with the Intercolonial was not taken seriously and the Government finally took the initiative to protect its own policy of all-Canadian transportation. The Dominion Government proposed to build a line (the National Transcontinental) from Moncton to Winnipeg and to lease it to the subsidiary of the Grand Trunk (The Grand Trunk Pacific) which was to construct a railway from Winnipeg to the Pacific Coast.

The National Transcontinental was to be located and built in accordance with the two-fold object of providing an all-rail outlet for western grain to Canadian ports and of opening ". . . to colonization the rich hinterland of Ontario, Quebec and New Brunswick". The agreement with the Grand Trunk Pacific in 1903 declared the purposes of the Government:—

> "It is hereby declared and agreed between the parties to this agreement that the aid herein provided for is granted by the Government of Canada for the express purpose of encouraging the development of Canadian trade and the transportation of goods through Canadian channels. The Company accepts the aid on these conditions and agrees that all freight originating on the line of the railway, or its branches, not specifically routed otherwise by the shipper, shall, when destined for points in Canada, be carried entirely on Canadian territory, or between Canadian inland ports, and that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports, and that all such traffic, not specifically routed otherwise by the shipper, shall be carried to Canadian ocean ports."[6]

Private capital would not undertake the venture under the conditions imposed by the Government. In order to secure its objects of all-Canadian transportation and development, the Dominion had to provide virtually all the capital required for the entire transcontinental project. The line from Moncton to Winnipeg was to be built wholly out of government funds. From Winnipeg to the Pacific Coast three-quarters of the cost (not exceeding $13,000 per mile in the Prairie section) was to be met by Dominion guaranteed bonds.

During 1902, the Canadian Northern obtained authority to build a railway from Port Arthur to Montreal. In 1911, when the Company was ready to go ahead with this plan, the Dominion Government was prepared to furnish the necessary assistance. Bonds to the extent of $35·5 million were guaranteed for a line from Port Arthur to Ottawa. The preamble to the Act providing for aid to the Company set out the aims of the Government and indicated the optimism with which still another transcontinental project was undertaken:—

> "Whereas, having regard to the growth of population and the rapid development of the production and trade of that portion of Canada lying west of the Great Lakes, and to the rapidly expanding trade and commerce of Canada generally, it is in the interests of Canada as a whole that another line of railway designed to assist in the direct and economic interchange of traffic between the eastern and western portions of Canada, to open up and develop portions as yet without railroad facilities, to promote the internal and foreign trade of Canada, to develop commerce through Canadian ports, and to afford the Government system of railways in Quebec, New Brunswick, Nova Scotia and Prince Edward Island an interchange of through traffic, should be constructed from the Pacific Ocean to the city of Montreal."[7]

While the Federal Government was assuming these extensive commitments to link together the separate regions, promote national development and keep Canadian traffic flowing over Canadian routes, the provinces, particularly those in the West, were energetically securing the construction of local lines both by guarantee and direct investment. Total railway mileage increased from 18,140 in 1901 to 30,795 in 1914. During the same interval, the railway mileage in the Prairie Provinces rose from 4,141 to 11,709. In 1914 there were more miles of railway in Canada per 1,000 inhabitants than in any other country in the world. Three railway systems (at 1914, two were not quite completed) spanned the continent. There were three lines through the wilderness of Northern Ontario, three lines, two of them running side by side, through the Rocky Mountains and three connections between Central Canada and the Maritimes, two of them through Canadian territory.

The extent of these costly duplications over long stretches of unproductive country shows the optimism of Dominion railway policy and the grandiose schemes of the railway promoters which this policy supported. Whether or not this optimism was pardonable in the spacious days of 1900-13, the burdens which it ultimately imposed on the Federal Government must be regarded as the cost of promoting the national purposes of development, national economic integration and political unity. It is true that many regional, provincial and local interests were served, but only incidentally to the

[6] *Statutes of Canada* (1903), 3 Edward VII, c. 71, sec. 42 of the agreement.

[7] *Statutes of Canada* (1911-12), 1-2 George V, c. 6.

prosecution of larger purposes. The cost was heavy. The aid given and commitments undertaken by the Dominion Government for railways up to 1914, are set out in Table 14.

TABLE 14.—DOMINION GOVERNMENT ASSISTANCE TO RAILWAYS
(*Millions of Dollars*)

	To March 31, 1914	
Cash Subsides—		
Canadian Pacific Railway System	48.5	
Canadian Government Railways	3.2	
Other	48.5	
		100.2
Direct Investments on Construction and Advances—		
Canadian Pacific Railway System	39.7	
Intercolonial and Prince Edward Island Railways	115.1	
National Transcontinental and Quebec Bridge	155.0	
Hudson Bay Railway	6.1	
Other Canadian Government Railways	13.7	
Grand Trunk System	72.5	
Canadian Northern System	.8	
Other	.4	
		403.3
Bonds Guaranteed—		
Grand Trunk System	35.0	
Canadian Northern System	59.7	
		94.7
*Total		598.2

* In addition the Dominion gave net land grants amounting to 31·8 million acres.

During the rising prosperity of 1900-13, these onerous burdens were not galling and, in any case, it was thought that the rapid growth of the country would quickly justify the gigantic undertakings. As long as these were still in the construction stage and the interest on the mounting railway debt was capitalized and as long as the increasing capital imports due to the building of the railways swelled the Dominion revenues, there was no strain on the public finances. Almost all of the heavy capital expenditures of the Dominion Government during 1900-14 were met from current surpluses and the net debt rose by less than $70 million. In 1911, the Minister of Finance stated that: "Twenty years ago it would have taken six years' revenue to pay the net debt; ten years ago it would have taken five years' revenue to pay the net debt; today less than three years' revenue would pay the whole net debt of Canada".[8] The lavish railway guarantees had not yet come home to roost, and of course it was thought they never would. It was during this period of buoyant revenues and high confidence that the Canadian railway problem was born.

[8] Budget Speech, April 4, 1911, p. 8.

The provision of national transportation facilities was but one aspect of Dominion railway policy. To attain the objectives of that costly policy it was necessary to secure a level of rates which would counteract the North-South pull of geography and of possible alternative routes and draw traffic over the East-West lines instead. Hence the Dominion played an important part in shaping the railway rate structure (by legislation and by rulings of the Railway Committee of Privy Council and later of the Board of Railway Commissioners). The nature and extent of its intervention were fixed by its determination to encourage inter-regional traffic and all-Canadian transportation.

The objectives of the Dominion appear clearly in the Crow's Nest Pass Agreement of 1897. Under this agreement, the Canadian Pacific Railway, in return for a subsidy for the construction of the Crowsnest Pass line, undertook to reduce rates on grain and flour moving from the Prairies to the Head of the Lakes by 3 cents per 100 pounds and to reduce the rates on a considerable list of settlers' household and building supplies moving westward from Fort William and points east by 10 per cent. In the Manitoba-Canadian Northern Agreement of 1901, the Railway Company, in consideration of a provincial guarantee of its bonds and the lease of the Northern Pacific lines in Manitoba, agreed to reduce its tolls on grain from points in Manitoba to Fort William and Port Arthur by 4 cents per 100 pounds or to reduce all other rates to and from the Head of the Lakes by about 15 per cent.[9]

Following this agreement, a reduction of 2 cents per 100 pounds on grain and 7½ per cent on other freight was granted to points in Saskatchewan and Alberta. The decision of the Board of Railway Commissioners in the Western Rates Case (1914) lowered the Saskatchewan and Alberta rate scales approximately to the level of those of Manitoba. The agreement with the Grand Trunk Pacific in 1903 stipulated "that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports." The net effect of these reductions was to make Canadian grain rates the lowest in the world. While these reductions were being made in Western rates the Eastern Export Rates Case in 1905 and the International

[9] A reduction of 2 cents per 100 pounds on grain was put into effect on February 1, 1902 and a further reduction of 2 cents on October 7, 1903. In addition, the reduction of about 15 per cent on all other freight was put into effect on June 1, 1902. This agreement was not the result of Dominion policy but the condition established by the agreement resulted in reductions elsewhere later ordered by the Board of Railway Commissioners.

Rates Case in 1907 resulted in a decrease of about 10 per cent in export rates from Ontario and in the merchandise class rates in Eastern Canada. The rates between the Maritimes and Central Canada were directly under the control of the Dominion through its operation of the Intercolonial. Because of the location of the line and the desire to promote traffic, the tolls were kept far below the level of profitable operation.[10]

It is impossible to relate here all the detailed effects of Dominion policy on the Canadian freight rate structure, but sufficient of the important cases have been cited to indicate their influence in the considerable lowering of rates that took place during this period. The broad decline in the level of rates was accompanied by a narrowing of regional differentials. This, together with the special concessions to certain commodities encouraged inter-regional trade and promoted the development of new areas, particularly Western Canada where the farmer was greatly benefited by the low rates on grain. The Dominion was bending the railways to its dominant purposes.

A Booming Market for Manufactures—protective tariffs direct demands of railway expansion and western settlement into Canadian channels

The third national policy which was a factor in directing the course of development during 1896-1913 was the tariff policy. Although it was inspired by other motives and originally adopted to deal with different problems, it was nevertheless closely related to the Dominion's transportation policy. The two together released a set of complementary influences which buttressed the transcontinental political union with an integrated transcontinental economy. Under the dynamic and expansive force of western settlement, these influences were effective. During the stagnation of the Great Depression, the "National Policy" tariff of 1879-87 had not produced any notable results. The disappointment gave increasing force to the complaints of the Maritimes and of the exporting industries of Central Canada. These complaints were strong enough to bring about some tariff reductions in the early nineties. However, the effect of the reductions was limited because the price decline made many specific duties increasingly protective. On the other hand, the burden of the tariff tended to decline due to the relative fall in the prices of manufactured goods, and the great decreases in the costs of transportation.

The period of expansion which began in 1896 brought an entirely different set of conditions. The development of the West created a new and powerful interest in low tariffs while the growing demands of the settlers made the protective principle all the more desirable to the industrial East. Furthermore, a new competitive situation emerged with the rise of the United States as a great manufacturing nation. The Canadian tariff policy during 1896-1913 was a compromise between these opposing interests and also an attempt to make western development the basis of a general expansion.

The agitation for lower duties brought a significant innovation in the tariff of 1897. Instead of the almost traditional offer of a reciprocity treaty with the United States, a reciprocal clause offered a reduction in duties of one-eighth, and after July 1, 1898, one-quarter, to all countries adjudged on the whole to have given equally favourable treatment to Canada. Great Britain was immediately granted this reciprocal tariff. In 1898, the general offer of reciprocity was replaced by a British Preferential Tariff of one-fourth lower than the ordinary duties. During 1900 the differential was increased to one-third.

In 1904, an anti-dumping clause was inserted in the tariff giving added protection against extremely low-priced imports, particularly iron and steel, without a general increase in duties.

A complete revision of the Customs Tariff Act was made in 1907, introducing an Intermediate Tariff in addition to the British Preferential and General Tariffs. Apart from the establishment of these three schedules, the changes in duties were few. The uniform one-third differential in the British preference was removed and a separate preference was given for each item. The Intermediate Tariff which was approximately 10 per cent below the General was to become effective only as commercial treaties were negotiated. These general changes were the main adaptations of the Canadian tariff to the changing circumstances of the 1896-1913 period.

None of them resulted in any important alteration in the level of protection to Canadian industry. There were numerous reductions in individual items but they were made mainly at the expense of the treasury, without much modifying the degree of effective protection. In a few cases, however, considerable decreases were granted, particularly on articles entering into the cost of production of western agriculture, such as farm implements and

[10] Prior to 1913 the Maritime freight rates were about 20 per cent below those of Central Canada. The first of the increases which by the end of the War (1914-18) brought the Maritime rates up to the level in Ontario and Quebec was put into effect in 1913.

tools, binder twine and barbed wire. The duties on primary iron and steel were reduced but the loss in protection was offset by increase in and extension of the bounties.

The changes in the structure of the Canadian tariff after 1896 were, in the main, attempts to placate the low tariff interest of the growing exporting industry of the West while at the same time maintaining protection against the rising competition from the United States. The strategy of national policy was to bring about an East-West economic integration, an East-West interdependence and an East-West flow of traffic over the costly transcontinental transportation system; the tariff policy was part of this strategy. In addition to other considerations, the British Preferential and the Intermediate Tariffs were devices to cheapen imports from Britain and Europe which would move over the East-West route without lowering the barriers which restricted the South-North flow from the United States. The commercial and industrial opportunities of the western development were not permitted to be seized by the "ever vigilant competitor" to the South but were reserved to "those who toil in the forests, in the fields, in the mines, in the shops of the older provinces".[11]

Under the circumstances, the moderate degree of tariff protection was a practical compromise between the various interests concerned. The settlement of the Northwest took place with the tariff as one of the given conditions. With rising prices and rising land values, it did not impose any immediate burdens. The rapidly increasing demands for manufactured goods brought great industrial expansion in the East without the shelter of a higher level of protection. The Government pursued its announced policy of "moderation and stability", and countered the insistent demands from certain quarters for increased duties with the reply that: "The best way you can help the manufacturers of Canada is to fill up the prairie regions of Manitoba and the Northwest with a prosperous and contented people, who will be consumers of the manufactured goods of the east".[12] In the political arena, the tariff was a 'sleeping dog' that was allowed to lie. Laurier wrote to Tarte: "The question of the tariff is in good shape if no one seeks to force the issue".*

The industrial expansion of Canada after 1896 was remarkable. Between 1890 and 1910, the net value of manufacturing production increased by nearly three times. In spite of an increase of nearly 200,000 farms in the Prairie Provinces during the period, the proportion of the total gainfully occupied engaged in manufacturing remained about the same. Although a vast agricultural region was added to the economy, the ratio of urban to total population increased from 32 to 45 per cent. While the value of agricultural production rose by leaps and bounds—the value of the exports of wheat and flour alone in 1913 was greater than the value of all exports in 1896.—the value of the manufactured goods produced for the home market increased at an even faster rate.

TABLE 15.—THE NET VALUE OF PRODUCTION OF MANUFACTURES—CANADA[a]

(Millions of Dollars)

—	Totals for Establishments with Five Hands and Over	
	1900	1910
Textiles	32·9	67·3
Clothing	20 0	43·7
Wool Textiles	4·0	4·4
Cotton Textiles	6·5	13·0
Iron and Steel and their Products	35·0	106·3
Agricultural Implements	5·5	10·7
Railway Rolling Stock	5·2	25·2
Boilers, Tanks and Engines	2·8	7·6
Bridge and Structural Steel Work	0·7	2·8
Wire and Wire Goods	0·8	2·2
Primary Iron and Steel	3·1[b]	14·9[b]
Rubber Products	0·6	3·4
Tobacco	8·1	13·2
Boots and Shoes	7·6	16·0
Furniture	4·3	8·0
Liquor	5·3	18·7
Flour and Grist Mill Products	5·5	25·3
Glass Products	1·0	3·1
Chemicals	3·9	12·2
Electric Light and Power	2·0	12·9
Total of above Manufactures	106·2	286·4
All other Manufactures	108·3	278·1
Grand Total	214·5	564·5

[a] The Census of Canada, 1901, 1911.
[b] Excludes iron smelting.

Manufacturing expanded in most of the important categories: the provision of capital equipment, consumers' goods of general consumption and the processing of natural products for export. The program of railway construction, the growth of cities and towns, the equipping of western farms and the extension of community facilities in both East and West gave a great

[11] See p. 69.

[12] Budget Speech, April 16, 1903.

* January 27, 1903, O. D. Skelton, *Life and Letters of Sir Wilfrid Laurier*, Vol. II, p. 183.

impetus to the production of capital goods. The iron and steel industry particularly made rapid progress. Although imports were large, the tariff and the bounties diverted a substantial portion of the growing demand to the Canadian producer. Between 1896 and 1913, the Dominion paid nearly $17 million in bounties. Although, during the same interval, Canadian consumption of pig iron increased tenfold, Canadian manufacturers managed to increase their share of the domestic market from 67 to 80 per cent.

The duty on steel rails ($7 per ton), which reserved the market mainly to the domestic producer, was the principal basis of two large steel enterprises, one in Nova Scotia and the other at Sault Ste. Marie. Under the tariff of 30 per cent on cars and 35 per cent on locomotives, the production of railway rolling stock became a major secondary industry. The new demand for the equipment of western farms brought a 250 per cent increase in the output of agricultural implements. The boom in construction generated a great expansion in the production of machinery, structural steel, wire and nails.

The rapid increase in the population and the addition of a large specialized agricultural group in Western Canada greatly broadened the market for consumers' goods. The rise in the demand for such items as boots and shoes, clothing, cotton textiles, rubber goods, furniture and tobacco, was, by means of the tariff, directed very largely to Canadian sources. Between 1900 and 1910, the net value of the output of this group of products more than doubled. However, little progress was made in the production of luxury goods and articles of finer quality and imports were large. In the case of woollen textiles, linens and silks, upon which the duties were relatively low, the domestic industries lagged.

The improvements in transportation, new discoveries, increased foreign demand, and technological developments opened new opportunities for the exploitation of Canada's natural resources and in turn encouraged the growth of processing industries. Important beginnings were made in non-ferrous metal smelting and the manufacture of pulp and paper while the older saw-milling, flour-milling, meat and fish packing industries expanded considerably. Between 1896 and 1913, the exports of flour rose from $700,000 to $20 million, planks and boards from $8·5 million to $20 million, wood-pulp from $700,000 to $6 million and the exports of printing paper reached over $11 million in the year ending March 31, 1914. The settlement of the Prairies dominated the Canadian economic scene, but there were significant stirrings in the forests and mines of Northern Ontario and Quebec and British Columbia.

The most striking feature of the industrial expansion was its concentration in Ontario and Quebec. Seventy-eight per cent of the increase in the total net value of manufacturing between 1890 and 1910 occurred in these two provinces. If the production for export (lumber, wood-pulp and preserved fish), iron and steel and local industries such as baking, printing, buttermaking, are excluded, the Maritimes made very little progress. In these three Provinces, the numbers employed in manufacturing increased but there was a decline in the proportion of these to the total of gainfully occupied persons. With the cheapening of transportation and the growing advantages of large-scale production, industry was drawn nearer to the rapidly increasing populations of Western Canada and the Central Provinces, and nearer to the centre of United States' industry which financed and controlled so many of the Canadian manufacturing enterprises. The tendency toward concentration in the St. Lawrence Valley was particularly strong in the case of consumers' goods. Table 16 shows that the concentration was not only great but that in many important manufactures it was increasing during this period.

TABLE 16.—THE NET VALUE OF MANUFACTURING PRODUCTION—PERCENTAGE OF TOTAL FOR CANADA IN ONTARIO AND QUEBEC[a]

—	1890	1910
	%	%
Textiles and Textile Products	84	90
Clothing	86	95
Cotton Textiles	77	80
Boots and Shoes	88	94
Furniture	81	97
Tobacco	92	95
Rubber Products	98	91
Liquors	88	83
Glass Products	90	73
Chemicals and Chemical Products	88	75
Iron and its Products	85	81
Agricultural Implements	99	98
Hardware and Tools	93	92
Railway Rolling Stock	97	67
Wire and Wire Goods	91	92
Total of Industries listed	85	85
Grand Total Manufactures	81	80

[a] Compiled from the Census of Canada, 1891 and 1911.

The manufacturing industries of the Maritimes not only failed (with the exception of iron and steel) to derive any substantial benefits from the western development but they also lost ground in their own markets. The small industries and the handicrafts which filled many of the needs of the local communities declined under the competition of the mass-produced articles of Central Canada. The processing of many household requirements moved from the self-sufficient family and the village artisan to the factories of Ontario and Quebec.

On the other hand, the iron and steel industry in Nova Scotia was directly dependent upon western settlement and the railway building and construction boom associated with it. The iron and steel tariffs and bounties enabled the Nova Scotia industry to participate extensively in the expansion. Rails and railway rolling stock were among the items of principal importance. The output of pig iron rose from 32,000 tons in 1896 to 425,000 tons in 1912, the latter constituting about one-third of the Canadian consumption. However, the rapid growth of the iron and steel industry did little more than make up for the decline in manufacturing that was experienced in certain fields.

The national transportation and tariff policies which did not produce any significant results during the Great Depression were manifestly successful under the impetus of western settlement. The wheat from the Prairies moved over Canadian railways, along Canadian waterways and partly at least through Canadian ports to foreign markets. The income from exports was spent largely on manufactured goods and equipment supplied by the Canadian producer. The steel mills and coal mines of Nova Scotia, the manufactures of Ontario and Quebec, the lumber mills and fruit farms of British Columbia were no longer restricted to the limited local demand or to the small and uncertain foreign market, but became increasingly dependent, either directly or indirectly, upon the expanding and protected market on the Prairies. The hitherto isolated and almost self-contained regions were united with an increasing volume of inter-regional trade. In the growing inter-relationships and inter-dependence, there was a common basis for prosperity and expansion.

The Inrush of Foreign Capital—its great importance in the rapid provision of capital facilities; the rising but vulnerable prosperity

The pace of economic development during 1896-1913 was made possible by a huge investment of capital. The expansion took place in the centre of a country of vast distances. It was based on the exploitation of the natural resources of an immense area. These facts, combined with the bulky character of the products and the scarcity of labour, made necessary a large physical equipment. The required capital could have been obtained at home only very slowly. One of the important factors in this rapid growth was the ease with which money could be borrowed abroad. Soon after the turn of the century, Great Britain began to lend overseas in greater volume than ever before and Canada became a favourite field for investment. In 1897, interest rates had fallen to the lowest levels in modern history and during that year the Dominion Government floated a long-term loan in London at an effective rate of 2·88 per cent compared with 4·5 per cent in 1879 and 3·25 per cent in 1888. In 1900, the securities of the Dominion Government were placed on the Trustee List in England. Throughout the period, British money was available for public and private borrowing in Canada at low cost.

The boom in investment, although comprising a wide range of industries and activities, was most marked in the field of transportation. Between 1900 and 1913, nearly $1,400 million were invested in railways, canals and harbours. These were the main instruments of development and the necessary means for the promotion of internal trade. The policy of all-Canadian transportation greatly added to the demand for equipment. If the connections between the different regions, and from each to the seaboard had been made via the more economical routes through the United States, or via the existing railways, waterways and ports of that country, the transportation overhead on the Canadian economy would have been very much less. However, in view of the evident progress of the country and the great optimism about its future, the costs of achieving the national objectives were readily assumed. Where private credit was not sufficient, the pledging of the public credit easily brought forth the quantities of capital required.

TABLE 17.—TOTAL CAPITAL INVESTMENT IN SELECTED INDUSTRIES
(Millions of Dollars)

—	By 1900	By 1910	By 1913
Farm Buildings and Farm Working Capital	780	1,705	—
Capital Employed in Manufacturing	447	1,248	—
Mining, value of Buildings and Plant	43	109	—
Capital Employed in the Fisheries	11	17	24
Sub-total	1,281	3,079	—
Capital Invested in Railways	950	1,700	2,200
Dominion Investment in Canals	79	97	107
Capital Invested in Electric Railways	39	102	141
Sub-total	1,068	1,899	2,448
Total	2,349	4,978	—

The equipping of western agriculture in so short a time also involved a heavy investment of capital. During this period nearly 200,000 farms were established on the Prairies. All the buildings, machinery, live stock, etc., had to be newly created or brought in, and between 1901 and 1911, the value of such property increased by nearly $500 million. While a large proportion represented the capital of immigrants and the savings of the settlers, a substantial part was borrowed from mortgage and implement companies, banks and merchants.

Although the growth of western agriculture overshadowed progress elsewhere, there were important developments in other primary industries. The spectacular but, in many cases, short-lived activities in the gold fields of the Yukon, the silver mines of Ontario and the lead-zinc-copper ventures of British Columbia, and the less dramatic but more continuous progress of coal mining in Nova Scotia and Alberta attracted considerable amounts of capital. The rising Prairie demand for lumber stimulated the saw-mill and logging enterprises of the Pacific Coast. The pre-War years also saw in Ontario and Quebec the beginnings of the hydro-electric and pulp and paper industries which require heavy investments of fixed capital.

The expansion in the production of natural products for export, the increase in population and the directing influence of the national policies promoted a rapid growth in manufacturing. Small factories supplying a limited local demand grew into mass-production establishments producing for the national market. As the demand for all kinds of manufacturing expanded, many new industries were launched. The transformation and extension of manufacturing facilities required a large investment and between 1900 and 1910 capital employed in manufacturing increased by about $800 million.

The growth of the industrial equipment of the country was accompanied by an equally remarkable addition to what may be called community equipment. The population was not only growing rapidly but was becoming more and more concentrated in urban centres. In the Prairie Provinces, the urban population rose from 103,000 to 469,000 in ten years; in Central Canada, the population of the leading cities doubled; and Montreal and Toronto became metropolitan centres. This growth involved large expenditures not only on buildings but also on the many facilities (roads, streets, waterworks, sewerage and electric light systems, street railways, etc.) which are necessary in urban communities. Between 1900 and 1913, municipal debts which were mainly incurred for these purposes rose from about $100 million to nearly $540 million.

During the fourteen years prior to the War between $4,500 and $5,000 million was invested in capital goods. The expenditure of this vast sum was the chief basis of the rising prosperity of the time. In striking contrast to the stagnation of the eighties and early nineties this prosperity brought economic fulfilment of the high hopes of the Confederation scheme, so sorely disappointed in the earlier period. The expanding frontier in the West and the development of internal trade under the influence of the national policies was accompanied by a great investment boom. The many political, social and economic problems engendered by the long depression found at least a temporary solution. The high rate of construction activity financed from foreign borrowings created a large demand for domestic commodities and labour. Industries formerly dependent on the export outlet found profitable markets at home. Workers in depressed areas and occupations readily obtained employment elsewhere. The surplus population of the Maritimes and of the rural counties of Ontario along with a great tide of immigrants found new homes on the Prairies and in the cities of the St. Lawrence Valley. Between 1900 and 1913, well over a million immigrants came and remained in the country; these, together with the large inflow of capital, built a greater, more prosperous, and more economically interdependent Canada. In the success of these common efforts, the foundations for a stronger political unity were laid.

By 1913, the country was equipped with magnificent capital facilities. About half of what had been added since 1900 was obtained by

borrowing abroad. These foreign obligations placed a heavy fixed charge upon the economy, the price of the rapid development that the borrowings made possible. The export capacity of the economy, which had to provide the interest due the foreign lenders, was greatly increased. Exports rose from $156 million in 1900 to $443 million in 1913 but in the latter year about one-third was absorbed in the payment of interest and dividends abroad. While the justification for these large commitments lay in the rapid rise in exports, the character of the latter was such that they were subject to wide fluctuations. During this period, the productive capacity of the country was tremendously enhanced but it also became more vulnerable to external influences. The economy which was so highly geared to large foreign borrowings and rising prices would encounter a severe dislocation when faced with a cessation of capital imports and falling export values.

Effect of Wheat Boom on the Regional Economies —Prairies the main exporting region; Ontario and Quebec the industrial and financial centre; slow progress in the Maritimes

In a few years between 1896 and 1913, the structure of the Canadian economy was basically changed. The settlement of the Prairies, the great importation of capital and the direction given by the national transportation and tariff policies transformed the isolated and depressed regions into an integrated and prosperous transcontinental economy. The most important factor in the development of the new situation was the rise of the Prairies as the important export region. This area, which in 1913 had one-fifth of Canada's population, was almost exclusively concerned with the production of wheat and its sale on the international market. Nearly 60 per cent of the gainfully occupied were directly engaged in agriculture which was dominated by this one crop. The remainder were chiefly employed in the commercial and distributive trades serving the farming community. Only about one-third of the population lived in urban centres. The large volume of wholesale and retail trade, and the financial, transportation and other services required by a highly specialized agriculture, were virtually the only support of the few cities that had rapidly grown up. Winnipeg became the Chicago of the Canadian West.

The economy rested almost completely on wheat. This one crop appeared to justify the large amount of capital borrowed abroad and invested in Western Canada, and it was the chief justification for most of the heavy investments of foreign money in the other sections of the Dominion. The Prairie region provided the principal economic contact of the country with the external world; one-third of Canada's exports out of which the external debts would have to be serviced consisted of wheat and flour. The rise to predominance of this commodity took place during the rapid development of international trade and investment which characterized the pre-War period. The exchange of European manufactures for foodstuffs grown overseas raised standards of living and greatly extended the productive area of the world. Hoping to become the granary of Europe, Canada became deeply committed to the continuance and further development of this international economic specialization and took the heavy risks involved in so great a dependence upon a single industry.

Along with the dramatic expansion of the Prairies which focused attention during this period, new export areas began to develop in British Columbia and Northern Ontario and Quebec. The extension of the railways and technological progress made possible a significant beginning in the exploitation of the resources of the Pre-Cambrian Shield. Between 1896 and 1913, the exports of nickel and silver rose from $2 million to $26 million and those of pulp and paper increased from less than $1 million to $18 million.

In British Columbia, the production of non-ferrous metals reached $17·1 million and exports of canned salmon $6·6 million in 1913. However, the chief factor in the economic progress of the Pacific Coast Province was the rise of the lumber industry. The Dominion's transportation policy linked British Columbia to the Prairie market which took about 70 per cent of its lumber. While exports were important, the expansion which brought a trebling of population was heavily dependent upon the wheat boom.

On the other side of the continent, the Maritimes, although profoundly affected by what was going on elsewhere in Canada, did not share equally in the buoyant prosperity of the period. Their golden age had reached its peak with the Reciprocity Treaty and the American Civil War and its decline coincided with the achievement of Confederation. Shipbuilding, the carrying trade, the self-sufficient agriculture, the small local manufactures and the flourishing fisheries, which were the cornerstones of the economy, declined with technological changes and unfavourable circumstances in foreign markets.

During the eighties and nineties, the iron steamship all but ousted the sailing vessel from the world carrying trade. Many thought that the coming of the railway would bring new opportunities compensating for this blow to their commerce by linking a large hinterland to their ports. The Federal Government had earlier built the Intercolonial and its transportation policy later resulted in the extension of the Canadian Pacific (the "Short Line") to Saint John, and the National Transcontinental to Moncton.* However, with the higher cost of railway over ocean transport and the larger capacity of steamships, traffic was irresistibly drawn to the inland St. Lawrence ports and the great American ports to the south. Nearness to Europe which was an advantage in the days of the sailing ship was no longer so. Nevertheless, there was some progress in the development of the Maritimes, as outlets for inland commerce, and in this, federal assistance and policy played a large part. However, between 1891 and 1911 the combined population of Saint John and Halifax rose but slightly (78,000 to 89,000) and part of this growth was at the expense of the smaller outports which declined.

With the rise of grain production in the American and Canadian West and the fall in the costs of transportation, Maritime agriculture was forced to undergo a substantial readjustment. The relatively poor soil, the small fields and scattered farms could not compete with the cheap imports of grain and live stock. It became necessary to specialize in the production of crops where there was the least disadvantage, namely roots and fruits for export, and fodder for the lumber camps and the sheltered dairy industry. This specialization, however, did not permit expansion and the gainfully occupied in agriculture decreased from 134,000 in 1891 to 114,000 in 1911.

The difficulties of manufacturing in the Maritime Provinces during the period have already been described.[13]

The fisheries, Nova Scotia's most important export industry, likewise encountered unfavourable circumstances. With the development of meat packing, canning and refrigeration, the fish markets were more and more limited to the sugar islands of the Caribbean where economic conditions were depressed. The encouragement of beet sugar production by European countries greatly curbed the markets for cane sugar and thus severely restricted the purchasing power of the West Indies. Although there was a rise of nearly 50 per cent in the general price level, the value of Nova Scotia's production of fish increased only 22 per cent between 1896 and 1913. The quantity of dried cod exported fell, and the number of men engaged in the fishing industry declined.

Throughout this period, the Maritimes were forced to undergo difficult readjustments. These readjustments had to take place within the framework of the national policies which, in some respects, hampered them and, in others, provided alternative occupations. The tariff policy imposed a drastic change in the conditions under which the Maritimes had developed. It curtailed the growth of new exporting industries and hastened the decline of the old. On the other hand, the tariff and the federal transportation policy linked these provinces with the expanding regions to the west and enabled them to share in some of the demands created by the wheat boom. The rise of the Nova Scotia steel and coal industries was directly dependent on the protective duties, steel subsidies and the great program of railway construction. On the whole, however, the forces which tied the Maritimes to the continental interior failed to induce an expansion sufficient to offset the changes which had destroyed their dependence upon the sea and weakened their relations with foreign markets. The Provinces languished and their men and capital sought opportunities elsewhere. However, by migrating to the scenes of greater opportunity many shared in the benefits of the expansion. During 1896-1913, the population of the three Provinces increased a mere 9 per cent compared with an increase of nearly 60 per cent in the rest of Canada.

At the beginning of this period, Ontario and Quebec, although sheltered by a protective tariff and connected with the Northwest by a transcontinental railway and with the Maritimes by the Intercolonial, had few relations with the rest of the country. They had their own contacts with foreign markets. The scope of their commercial and industrial activities was confined mainly to their own areas. In the early nineties, Canada's leading exports were lumber, cheese, fish, cattle and barley, and of these all but fish came chiefly from the two Central Provinces. Forest and agricultural products were the principal staples and the fluctuations in their sales in foreign markets determined the ebb and flow of prosperity. At the end of the period in 1913, this condition had entirely changed. Exports had become a relatively minor

* For fuller discussion of transportation policies in relation to the Maritimes see Book II, Section F, Ch. V.

[13] See pp. 74-5.

factor in their economy. The Canadian, and more particularly the Prairie market for manufactured goods, transportation, commercial and financial services had become the main support of the economic life of the St. Lawrence Valley.

The western settlement and the national policies induced a rapid expansion, a great investment of capital and a measure of prosperity not experienced in the Central Provinces since the 1850's. With the highly specialized export production in Western Canada and the decline in the competitive position of the small Maritime manufacturers, Ontario and Quebec became the manufacturing centre of the country. The growing volume of traffic from the Prairie region moved over the railways, the waterways and out through the ports of the Central Provinces. The banks, insurance companies, mortgage companies and other financial institutions of these older communities quickly extended their activities to the expanding West where they came to occupy virtually the whole field. This commercial and industrial concentration was accompanied by a rapid urbanization and the growth of metropolitan centres in Central Canada. It was accompanied also by the rise of great national business organizations having their headquarters in Montreal and Toronto. Manufacturing, finance and transportation came to be dominated by a few large corporations whose operations extended across the entire continent. This period saw the development of a remarkable centralization in a country of such widely separated and varied regions.

The wheat boom had finally brought the realization of the economic objectives of the Confederation scheme. The Northwest was settled and the Federal Government was able, through its policies and projects, to ensure expansion in the older communities of Canada on the basis of that settlement. These communities, restricted by the exhaustion of their own frontiers and confined to a precarious dependence on their own foreign outlets, received a new stimulus from the highly specialized exporting industry on the Prairies which had become the country's principal economic contact with the external world. Wheat transformed the static and isolated regions into an integrated and expanding national economy. The rising prosperity which accompanied this growth in interdependence fortified the political structure of Confederation with a common material interest and a national spirit such as had never existed before.

Growth of National Unity and Rise of Canadian Nationalism—success of Dominion policy and common basis of prosperity alleviate regional and provincial discontent

In this atmosphere of large plans and their successful execution, Canadians began to believe themselves to be a great people. Their work in creating the West gave them that sense of common achievement which marks a nation. They were proud of what they had done and this gave them confidence in the future. Sir Wilfrid Laurier merely echoed a widespread conviction when he proclaimed that the twentieth century belonged to Canada.

This pride and optimism was manifested in several ways during the period. The Alaska Boundary Award was greeted in 1903 by an outburst of indignation throughout Canada. It was felt that the diplomatic bargaining of Great Britain and the United States had ignored the rights of a nation. This humiliation was a sharp reminder of Canada's dependent colonial position and it reinforced the movement for autonomy.

The autonomy movement itself was the product of a national consciousness. The desire for a privileged and sheltered position inside the Empire which had moved the colonies before Confederation was largely spent. A spirit of national exclusiveness struggled with older loyalties and with undoubted pride in the Imperial connection. The period was marked by the see-saw of these forces. Under the Laurier Government, the various proposals for closer relationships within the Empire were coolly received. Autonomy was more to be desired than Empire federation. Canada elected to establish its own navy rather than to contribute directly to a system of centralized imperial defence, and was not disposed to participate in the framing of British foreign policy. The Borden Government, after 1911, set out to modify this policy. But its naval bill was rejected by the Senate and overtures for some share in the framing of British foreign policy were coolly received by a British Government conscious of the difficulties of divided responsibility.

The growing national consciousness and confidence also contributed to the defeat of Reciprocity in 1911. For years after Confederation, both parties had attempted to secure a renewal of reciprocal trade relations with the United States. It was in despair of such a desirable arrangement that the National Policy had been adopted in 1879.

After many doubts and disappointments, the widespread prosperity of the first decade of this century appeared to vindicate the policy of industrialization by protective tariffs. The conviction that the nation could work out its own destiny, imperialist sentiment, resentment at the United States and the pressure of special interests combined to turn down Reciprocity when it was at last offered.

Nationalism had a potent influence on external relations. Internally, it worked hand in hand with other favourable circumstances to promote political harmony. Western expansion brought prosperity to the older provinces and eased regional difficulties which might otherwise have sought political expression. The bold leadership of the Federal Government seemed everywhere to be creating opportunities rather than imposing restrictions. The impressive results secured won a new respect and loyalty for federal policies.

There was no revival of the centralizing tendencies which had marked the leadership of the Federal Government in earlier days. The decisions of the Privy Council had undermined the theory of federal dominance. The Liberal Party, which was in power during 1896-1911, had recruited much of its strength from the elements which combatted the Macdonald conception of Confederation and struggled for provincial rights. Its policy was greatly influenced by the personality of Sir Wilfrid Laurier who consistently tried to promote a closer harmony between the French and English through mutual tolerance and understanding. The prevailing philosophy of Canadian federalism in this period, therefore, aimed at national unity through voluntary co-operation of an acknowledged diversity of elements. The Dominion was alert to avoid policies which would cut athwart provincial interests.

Dominion powers of reservation and disallowance were much more sparingly exercised. The power of reservation was exercised in the sole instance of a British Columbia bill relating to Oriental immigration.[14] While there were 29 disallowances of provincial acts in the period, 19 of these were accounted for by the repeated enactment in British Columbia of discriminatory and restrictive measures against Orientals. The Dominion considered these to be either beyond the legislative power of the Provinces or contrary to Dominion or Imperial policies and interests. On these grounds, it was prepared to act firmly but it abandoned the earlier practice of disallowing provincial statutes on the ground that they were inequitable, confiscatory or contrary to sound principles of legislation.[15] The competence of the provincial legislatures to decide such issues was acknowledged.

The Dominion also began to consult the provinces on matters of common concern. Dominion-provincial conferences were encouraged as instruments of co-operation and through them the Dominion tried to secure a satisfactory final revision of subsidies. In face of this conciliatory attitude of the Dominion, the provinces were less inclined to be aggressive. They pressed strongly for a revision of subsidies but in the conferences of 1902, 1906 and 1913, they did not seriously criticize federal policies or demand radical constitutional changes. They were mainly concerned with their fiscal difficulties and not with fundamental adjustments in Dominion-provincial relations. The general prosperity was a powerful solvent of political as well as economic difficulties.

2. Public Finance, 1896-1913

Rapid Rise in Government Expenditures—extensive assistance to development, the occupation of the frontier and urbanization

Between 1896 and 1913 there was an immense growth in public expenditures. Total Dominion, provincial and municipal current outlay was multiplied four times, rising from $63 million to $253 million. The growth in population naturally involved additional outlay by governments but the per capita expenditures almost trebled. The forces which brought about this extraordinary jump in the costs of government were all-pervasive, exerting roughly equal pressure on all three levels, Dominion, provincial and municipal.[1]

The principal causes of this multiplication of expenditures was the enormous expansion of the economy and the important role which governments played in that expansion. The rapidity of economic development in the early years of the century was only made possible by the wholehearted efforts and lavish assistance of governments. The bringing of the western wheatlands within reach of the international market in less than a decade involved large additions to transportation facilities which private enterprise could

[14] *Memorandum on the Office of Lieutenant-Governor of a Province*, Department of Justice, Ottawa, 1937, pp. 60-61.

[15] *Memorandum on Dominion Power of Disallowance of Provincial Legislation*, Department of Justice, Ottawa, 1937, pp. 70-73.

[1] The Dominion raised its percentage share of the total outlay from 38 per cent in 1896 to 42 per cent in 1913, the provinces increased their share from 17 per cent to 19 per cent while the municipal share declined from 45 to 39 per cent.

not have supplied so quickly, and indeed would not have dared to embark on, without public assistance.

Moreover, the general expansion generated by the wheat boom led to new developmental expenditures everywhere. The new mining areas in British Columbia and Ontario were opened up. Provincial governments began to make grants for highway development. The Federal Government gave bounties on iron, steel, lead, petroleum and imports of manila fibre in order to encourage domestic production.[2] Various industries were assisted by provincial subsidies and both Dominion and provincial governments allotted increasing sums to encourage and improve agricultural production.

During the boom, two new Provinces were created and two others grew to maturity in the West. In Saskatchewan and Alberta, the entire community equipment and all the physical apparatus by which governments perform their social role had to be provided almost overnight. Transportation and communication facilities, public buildings and equipment of every kind were required. The foundations and superstructure of an educational system had to be built. Towns and villages sprang up everywhere, needing a wide variety of municipal services. People in haste to realize a goodly heritage found private enterprise too slow in providing some of the services commonly left to its care in older communities and they easily agreed in asking governments to furnish them. What was true of these two Provinces was only slightly less true of the rapidly growing Provinces of Manitoba and British Columbia.

The largest increases in government activity in Eastern Canada were due to the rapid urban development of the period. The wheat boom brought great industrial expansion, particularly in Central Canada. Towns grew into industrial cities and cities into metropolitan areas. As people were drawn from the farms and villages to the cities and towns, the problems of urban crowding required a large extension of public services. Streets and street railways, gas and electric systems, sewage systems, water supplies, schools, hospitals, libraries, etc. were required. The greater the concentration of population, the greater is the number of services which can be supplied most economically in a collective manner. Also, in the case of some services, concentration brings a rapid rise in per capita costs. This tendency toward a geometric rather than a simple arithmetic progression of government expenditures in growing urban and metropolitan areas was an important factor in the increase in municipal expenditures in the period under review.

Finances of the Dominion—booming customs revenues spur on aggressive program of development; the lavish assumption of railway commitments

In the Confederation scheme, one of the principal functions of the Federal Government was to be the promotion of economic development, and for two brief periods (1867-1874 and 1879-84) it confidently undertook this task. Then the Great Depression dried up its revenues and sapped its initiative. When prosperity reappeared at the end of the century, the Dominion became once more the chief instrument of new and larger programs of development. With expanding revenues, its operations gained a new magnitude and sweep surpassing all its previous efforts. Doubts as to its capacity to play the role intended for it suddenly vanished.

The development of the West was under way by the beginning of the century and Canada was attracting large quantities of foreign capital. As this capital poured into the country in the form of goods, the familiar public revenue cycle of the Dominion was repeated but on a scale hitherto unknown.[3] Customs, and later excise, receipts from which it drew over 90 per cent of its revenue shot upward, and as early as 1900 produced a surplus of $8 million on ordinary account. With two or three exceptions, the Dominion piled up surpluses of increasing size each year throughout the remainder of the period. In 1912-13, despite considerable capital expenditures charged to current account, the surplus was nearly double the total gross revenues of the Dominion in 1896.

At the same time, the rapid increase of population and low interest rates were reducing the per capita burden of debt charges. In 1914, the per capita interest charges were slightly less than they had been in 1875, despite the addition of $393 million to the direct public debt of the Dominion. Such facts make it easier to understand the boundless optimism of the time and the assurance with which the Federal Government increased its expenditures and piled up contingent liabilities. As long as the expansion continued, past commitments appeared trivial in the face of mounting

[2] For figures showing amounts expended on bounties in this period, see Canada Year Book, 1915, pp. 459-61.

[3] In the first decade of the century the value of imports rose from $190 million to $420 million.

revenues and surpluses. As the conditions which would bring expansion to a halt were nowhere apparent, the dire predictions of the cautious and the timid seemed ludicrous and the unfolding of events throughout the period reinforced this superficial judgment.

Between 1896 and 1913 the current expenditures of the Dominion were multiplied four times. Expenditures on developmental projects accounted for over half the total increase. The promotion of western settlement and general expansion by lavish outlays on transportation and public domain were the principal concern of Dominion finance. It is not necessary to recount the well-known history of the liabilities incurred for the National Transcontinental, the Grand Trunk Pacific and the Canadian Northern. In 1913, virtually the whole of the direct and indirect debt of the Dominion, amounting to $521 million, had been incurred for railways, canals, harbours and river improvements.

Aside from development, the only significant increase in expenditure was for defence, the cost of which, due to uneasiness in Europe, rose from $2 million to almost $14 million. The creation of two new Provinces in 1905 and the general revision of subsidies in 1907 added some $7 million to the federal subsidies. The outlay on general government and administration rose by over three times due mainly to the increase in population, the rapid extension of the occupied area and the rise in salaries and wages. The Dominion undertook no new services of importance. It assumed no responsibilities and gave no assistance to the provinces for public welfare and indeed no need for this appeared. Development, particularly the railway program, overshadowed all the other functions of the Dominion.

The enormous additional burdens which the Federal Government assumed in connection with development were not onerous in the days of rapidly expanding revenues. The full weight of them was not felt until the contingent liabilities arising out of the railway guarantees became hard realities and the operating deficits of the insolvent railways were saddled on the Dominion at a time when revenues were falling. In this period, the seeds of a perennial public finance problem were sown.

TABLE 18.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT,[a] 1896 AND 1913

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces [b] and Dominion	
	1896	1913	1896	1913	1896	1913
Net Debt Charges	1,526	2,304	9,483	12,213	11,009	15,081
Defence	—	—	1,627	13,781	1,627	13,781
Public Welfare	1,472	4,343	946	2,617	2,418	6,960
Education	2,003	9,600	—	215	2,003	9,815
Agriculture and Public Domain	951	7,434	990	10,985	1,941	18,403
Transportation	924	8,631	1,927	35,467	2,851	41,964
Subsidies to Provinces	—	—	4,238	11,280	—	—
General Expenditures—Justice, Legislation, General Government and Miscellaneous	4,276	15,069	9,165	31,736	13,441	46,805
TOTAL	11,152	47,381	28,376	118,294	35,290	152,809
Total per Capita (Dollars)	2·27	6·22	5·59	15·50	6·96	20·02

[a] Source: The Public Accounts of the Provinces and the Dominion and the Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.
[b] Inter-governmental transactions eliminated.

Finances of the Provinces—pre-occupation with development; the rapid increase in debts and expenditures of the Western Provinces

Between 1896 and 1913, the per capita current expenditures of the provinces increased nearly three times, their per capita debts nearly four times. At Confederation the provinces were vested with important functions but their financial

responsibilities were not great. Their revenues were narrowly restricted and it was not thought they would again incur any substantial debts. However under the circumstances of the wheat boom they rapidly enhanced their role as agencies for collective expenditures. By 1913, the total debts of the provinces were more than half, and their current expenditures nearly half those of the Dominion. The provinces had evolved from a relatively minor to an important position in Canadian public finance.

As in the case of the Dominion, the dominant factor in the rise of debts and expenditures was the pre-occupation with economic development. While the Dominion was spending lavishly to promote expansion on a national scale, the provinces were encouraging the construction of railways and facilitating settlement on their own frontiers. In 1913, 80 per cent of the total provincial debts and 40 per cent of the current expenditures were incurred for development.

The largest outlays for development were naturally made on the frontiers of the expansion, namely the four Western Provinces. In 1913 the average per capita debt of these Provinces was nearly six times as great as that of the rest of the country. In the same year, Alberta, British Columbia and Manitoba each had larger total liabilities than the Province of Ontario. Three-fifths of the western provincial debt had arisen out of expenditures on railways or consisted of guarantees of railway obligations. The latter included some $85 million of bond guarantees granted to hasten the construction of branch lines by the Grand Trunk Pacific and of the mainline and branches of the Canadian Northern. The Prairie Provinces had also incurred considerable debts for the provision of general community facilities. In many instances it was thought that private enterprise was too slow, and that the rich natural heritage might well be mortgaged to encourage rapid settlement and to lighten the rigours of the pioneer life with a few common amenities. All of the three Provinces established provincial telephone systems. Manitoba and Saskatchewan made investments in grain elevators. Public buildings, court-houses, normal schools, universities, hospitals, roads, etc., had to be supplied almost overnight. These would fill not only the needs of the present but also those of a much greater future. Hence it was felt that they should not wait until they could be paid for out of current revenues. At 1913, the per capita debt incurred for public buildings, institutions and roads by the Western Provinces was four and a half times as large as that in Eastern Canada.

In addition to the provision of capital facilities the Western Provinces were spending appreciable amounts on development out of current revenues. Debt charges however were still small since the railway guarantees did not as yet have to be implemented. Later, most of these were assumed by the Dominion. British Columbia, heavily dependent upon lumbering and mining, was making large outlays on public domain. Manitoba, Saskatchewan and British Columbia were already spending considerable amounts on highways. The last Province, with its difficult topography and its policy of meeting capital costs out of current revenue, was spending nearly twice as much on roads and bridges as all the other Canadian provinces combined.

The developmental programs of the Eastern Provinces were relatively on a much smaller scale than those in the West; nevertheless they were important and almost wholly accounted for the two-fold increase in their per capita debts between 1896 and 1913. New Brunswick and Quebec expended considerable amounts in extending railways to their undeveloped frontiers. Ontario built the Temiskaming and Northern Ontario Railway, guaranteed $7·9 million of Canadian Northern Ontario railway bonds and launched the Hydro-Electric Power scheme. The Maritime Provinces concentrated mainly on the construction of roads and bridges which was responsible for the major portion of the increase in their debts. Net debt charges however did not rise substantially. Quebec which had fallen into serious difficulties in the eighties was wary of again assuming such burdensome liabilities and its per capita debt, thanks to current surpluses, actually declined during this period. The debt of Ontario was still completely self-supporting. The current expenditures on public domain and agriculture however bulked relatively large in Ontario and Quebec where the northern resources were beginning to become valuable. Nearly one-fourth of the current outlay of the Maritimes was expended on roads and bridges.

Aside from the concentration of public resources on development, there were no important changes in provincial expenditures during this period. In 1913, legislation, justice and general administration constituted 32 per cent of the total current outlay, education 20 per cent, and public welfare but 9 per cent. The average per capita cost of general government for all provinces was slightly more

than doubled. Salaries and wages had risen, the society had become more complicated and the regulatory and administrative functions had increased. The greatest rise had taken place in the Prairie Provinces and British Columbia where the per capita expenditures on general government overhead were respectively three and six times those of the Eastern Provinces. The lag in municipal development, the thin scattering of population and the rapidity with which government services had to be provided added greatly to costs. Education also called for larger outlays. The economy was becoming more specialized and the provinces responded to meet the more exacting requirements by fostering more complete and better standards of instruction. However, during the great expansion and prosperity of the time, most of the problems of social welfare, which have since become crushing responsibilities of the provincial governments, found their solution inside the private economy. The growth of specialization and urban concentration were rapidly breaking down the former self-sufficiency of households and local communities but the social implications of this change were almost unnoticed in this period of spacious opportunity for all. Added costs of public welfare were mainly due to improved care for limited classes of unfortunates.

The Rise of Municipal Expenditures—rapid urbanization in the East, and the establishment of new cities and towns in the West

Total municipal expenditures during this period rose in three dimensions. First, there was the growth in population and the establishment of many new cities and towns, particularly in the West; second, the growing concentration of the population in large urban centres with their heavier per capita costs of providing the same services; third, the extension in the variety of collective services which accompanies the increasing size of urban centres.

One of the striking social changes of this period was the crowding of people into towns and cities. By 1911, over 45 per cent of the population was classed as urban. One-third of the population lived in cities and towns of over 5,000 and almost one-fifth in cities of over 50,000. The general decline in self-sufficiency and the industrial expansion stimulated by the wheat boom and the national policies brought a sharp increase in urbanization.

The self-sufficiency of the farm household and the village community, which had marked Canadian life throughout the nineteenth century, largely disappeared with the rapid development of a specialized exchange economy in this period. Higher prices for agricultural produce led the farmer to specialize and concentrate his efforts on a few products. Improvements in transportation wiped out the "natural shelter" under which the village craftsman had flourished. These factors, combined with improvements in manufacturing technique, enabled the farmer to exchange more of his specialized products advantageously for his various requirements which were processed or manufactured in urban centres. The assembling of farm and other natural products for distant markets and the distribution of manufactured goods for farm and village consumption required an intricate financial and commercial mechanism which concentrated in a few great cities. The rapid centralization of control in industry, commerce and finance in the period speeded up this development.

Urban concentration involves large additions to municipal services and, with a rising standard of living, it leads to collective provision of many comforts and conveniences. The cost of fire and police protection, health services and education, streets and sewers increases in a much higher ratio than the numbers of the population. Urban municipalities undertake water, light, power and transportation services. The skills required in a complex specialized society can only be secured through a more expensive educational system. The amenities of parks, libraries, recreation centres, free bathing facilities, among other things, are demanded. In the result, a greater proportion of the urban income is spent on collective services which add to municipal costs but, on balance, need not decrease and may even increase the real income of the community.

Municipal expenditures and debts, as in the case of the provincial governments, rose most steeply in the Western Provinces and for much the same reasons. Between 1901 and 1911 the urban population of the West grew from 193,000 to 673,000, a rate of increase six times as great as that in Eastern Canada. The speed with which services and facilities had to be provided added substantially to the costs. In addition many western municipalities undertook ambitious schemes which far exceeded existing requirements and were based on the most optimistic estimates of the growth in population. Per capita municipal expenditures in the Prairie Provinces and British Columbia were

approximately double those of Central Canada.[5] The Maritimes were the least urbanized region in the Dominion and the provincial governments bore a relatively higher share of the total costs of education and roads, particularly in the rural areas where municipal organization had made little headway. These factors, together with the slow increase in population, held down the total per capita outlay of local governments to about half that in Ontario and Quebec.

The rapidly rising municipal expenditures in Central and Western Canada were financed without difficulty in this period. Almost all municipal revenues were derived from a direct tax on real property. The pre-War boom was marked by a steep and sustained increase in land values which easily carried the mounting burden of taxation.

Expansion of Provincial Revenues—inelastic federal subsidies intensify development of provincial revenue sources; the growing importance of taxation

The provincial governments could not have added to their expenditures as they did between 1896 and 1913 without access to more fruitful revenue sources. The fact that they were exploring the possibilities of the unpopular direct taxes in the early nineties testified to the tightness of their fiscal positions at the opening of this period. They continued to be more or less cramped for nearly a decade after 1896. Dominion revenues improved at once with rising customs receipts. It was almost ten years before the expansion and rising capital importations permeated the economy sufficiently to affect substantially the provincial sources of revenue. During the first few years of the century, therefore, the provinces pressed for a substantial revision of subsidies.

The Provinces of Alberta and Saskatchewan which came into existence in 1905 were given the advantage of previous revisions and liberal interpretations of the subsidy formula and the sums they received showed a considerable change in the conception of provincial responsibilities. Each was given a subsidy in excess of $1 million of which $375,000 was in lieu of the public lands retained by the Dominion. The 80 cent per capita subsidy was to be calculated on the actual population increase until a population of 800,000 was reached in each case.

Meanwhile, the older provinces continued their agitation and the Provincial Conference of 1906 was called to effect a final revision of subsidies. The settlement, which was accepted by all governments except British Columbia, added about $2·3 million (an increase of about one-third) immediately to the total annual subsidies paid to the nine provinces and provided for automatic increases with the rise in population.

About the time that the subsidy revision was under discussion, however, the boom began to have a marked effect on the sources of revenue on which the provinces had relied in the past with such disappointing results. Accelerating business activity boosted the income from licences and fees. Expansion of lumbering and mining brought a sharp increase in the revenues from public domain. As rising prosperity quickened the accumulation of wealth, succession duties began to bring in considerable sums. As corporate organization spread rapidly, the corporation tax became fruitful. This buoyancy temporarily relieved the financial strains of the provinces but when the boom broke they were once more in difficulties. Manitoba and Prince Edward Island got a further increase in federal grants in 1912 and at the Inter-Provincial Conference in 1913 the provinces again urged a general revision of subsidies.

[5]

TABLE 18A.—PER CAPITA MUNICIPAL GOVERNMENT EXPENDITURES, CURRENT ACCOUNT[a], 1913

—	Total Canada	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
	$	$	$	$	$	$	$	$	$	$
Net Debt Charges	2.59	0.27	0.98	0.69	2.15	2.28	3.67	2.73	5.12	6.67
Public Welfare	1.07	0.05	0.87	0.59	0.92	0.81	2.38	0.89	1.16	2.89
Education	3.64	0.69	2.14	1.69	2.43	4.26	4.68	4.66	7.38	3.44
Transportation	1.93	0.26	0.61	0.79	1.59	1.97	1.76	2.79	2.80	4.47
General Expenditures—Justice, Legislation, General Government and Miscellaneous.	3.95	0.31	1.22	1.14	2.83	3.72	7.52	6.57	4.63	9.03
TOTAL	13.18	1.58	5.82	4.90	9.92	13.04	20.01	17.64	21.09	26.50

[a] Source: Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.

By the end of this period, federal subsidies had become a relatively minor part of total provincial revenues, namely 28 per cent, compared with 43 per cent in 1896 and 58 per cent in 1874. At the same time, the proportion of federal revenues thus transferred to the provinces had dropped by one-half.[6] On a number of occasions the provinces had suggested a formula which they hoped would keep the subsidies more in line with their growing expenditures and enable them to reap some of the benefits of the expanding revenues of the Dominion. this resolution would be acted upon, disappeared when less than nine months later Canada was plunged into the Great War.

Federal subsidies provided less than one-fourth of the increase in provincial revenues ($35 million) during this period. The sources from which the provinces were originally expected to meet expanding requirements, namely, licences, fees, etc., and public domain, took care of only about one-half of the increase in their needs; the remainder, $8·4 million, was obtained from direct taxation.

TABLE 19.—GOVERNMENT REVENUES ON CURRENT ACCOUNT,[a] 1896 AND 1913

(Thousands of Dollars)

	Provinces		Dominion		Total Provinces [b] and Dominion	
	1896	1913	1896	1913	1896	1913
Federal Subsidies	4,301	12,851	—	—	—	—
Taxes—						
Customs Import Duties	—	—	19,479	104,691	19,479	104,691
Excise Duties	—	—	9,170	21,452	9,170	21,452
Corporation Taxes	156	3,490	—	—	156	3,490
Succession Duties	428	3,611	—	—	428	3,611
Income Taxes on Persons	13	119	—	—	13	119
Real Property Taxes	180	1,753	—	—	180	1,753
Other Taxes	177	347	—	1,335	177	1,682
Sub-Total—Taxes	954	9,320	28,649	127,478	29,603	136,798
Motor vehicles, automobile licences, etc.	—	470	—	—	—	470
All other Licences, Permits and Fees, Fines and Penalties	1,756	6,678	266	1,516	2,022	8,194
Public Domain	2,801	11,046	299	3,420	3,100	14,466
Liquor Control	—	2,248	—	—	—	2,248
Sale of Commodities and Services	63	815	543	1,513	606	2,328
Other	97	1,507	201	1,276	298	2,392
TOTAL	9,972	44,935	29,958	135,203	35,629	166,896

[a] Source: The Public Accounts of the Provinces and the Dominion and the Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.
[b] Inter-governmental transactions eliminated.

The proposal that a part or all of the subsidies should consist of a constant ratio of the Dominion's receipts from customs and excise, which was advocated in Parliament in 1884 and at the Inter-Provincial Conference in 1902, came up again at the Conference in 1913. This time a formal resolution was passed asking the Dominion to give the provinces an extra grant "equal to 10 per cent of the Customs and Excise Duties collected . . . from year to year". Whatever likelihood existed that

As the expenditures rose, the disparities in the ability or ease with which the various provinces and regions could meet them became more conspicuous. Also, in the provinces where the expansion was most rapid, the population was more willing and more able to bear heavier taxes for the purpose of encouraging further development and of providing collective services which private enterprise was slow to undertake.

Next to federal subsidies, public domain was the largest single source of total provincial revenues and here the disparities between provinces were

[6] Between 1874 and 1913, the percentage of provincial subsidies to the Dominion's revenues fell from 18 to 9 per cent.

particularly great. The Prairie Provinces did not have control over their natural resources but received a small annual subsidy from the Dominion in lieu of them. In British Columbia, where lumbering and mining were the principal activities and where the expenditures on public domain were large, the revenues therefrom were ten times as great per capita as in the Eastern Provinces. The other traditional method of raising provincial revenue, i.e., the imposition of licences, fees, etc., was used most intensively in the Prairie Provinces where, after federal subsidies, it constituted the main source of income. In the Maritimes the receipts from this item were almost negligible.

The largest reserves of provincial revenue lay in the power of direct taxation. The growing demands upon expenditures and the inelasticity of federal subsidies forced the provinces to make more and more use of such taxes despite their unpopularity. The extent to which they were levied in each of the provinces depended upon the nature of the economy and the magnitude of the total outlay. In British Columbia where the level of expenditures on a per capita basis was many times as high as in the other provinces, the per capita receipts from taxation were nearly six times those in the rest of the country. While British Columbia had a highly developed system of taxation, including taxes on personal incomes, real and personal property, the levies in the other provinces were confined almost exclusively to corporation taxes and succession duties.[7] The two latter imposts were most productive in Ontario and Quebec. The industrial and commercial expansion stimulated by the wheat boom and the national economic policies was accompanied by a rapid concentration of corporate activity and of large private fortunes in Central Canada. The receipts from corporation taxes and succession duties, therefore, rose steeply and by 1913 yielded 26 per cent of the total provincial revenues compared with but 9 per cent in the Prairie Provinces and 8 per cent in the Maritimes. The per capita revenue from succession duties in Ontario and Quebec was twice as high as the average of the other provinces.

A number of significant changes in the financial position of the provinces from that intended at Confederation, had already begun to emerge at the opening of this period. The demands and opportunities of the wheat boom, and the growing specialization and interdependence of society greatly accelerated this development. Despite the cramping financial settlement of 1867, the provinces became in fact much more than large municipalities. When other revenues became insufficient, they entered the field of direct taxation which in 1913 was already producing over one-fifth of the total revenues. However, the implications of large uncontrollable expenditures and heavy debts, of the great inequalities in taxable capacity, and of the attempt to use what are in reality national taxes for provincial purposes, were not yet evident.

Summary—1896-1913

The common efforts of all regions in building up the country between 1896 and 1913 cemented the political union of 1867 and Canadians became conscious of themselves as a nation. The growing sense of community was accompanied by increasing economic interdependence. The national policies of all-Canadian transportation and protective tariffs were effective in making the wheat boom the basis of a general economic expansion in which the manufacturing industry of Eastern Canada became heavily dependent on the agricultural export region of the Prairies. With the exception of the Maritimes, which were affected by but did not share generally in the expansion, the wheat boom brought prosperity to the whole country but it was prosperity which remained conditional on the profitable production of wheat. A high degree of economic integration had been achieved but it required a sustained world demand for wheat to make it a lasting success.

As Canadians on the prairies specialized in growing wheat for the international market and Canadians in the older parts of Canada specialized in providing a wide variety of goods and services for the national market, the old self-sufficiency of pioneer days passed from the scene. By 1913, the open frontier had almost disappeared. With the coming of a highly specialized interdependence, the capacity of individuals to overcome economic reverses and mischances by their own efforts was greatly impaired and the material conditions which force governments into costly expenditures for social security were begun. With intensive industrial development came the shift from the country to the cities, bringing in its train a greater demand and a greater need for collective provision of various services.

The general expansion was accompanied by the multiplication of the expenditures at all levels of government. In part, this was due to the growth of population and the extension of the area

[7] At 1913, British Columbia and Prince Edward Island were the only provinces levying personal income taxes. However, in the latter Province the tax was more in the nature of a tax on real and personal property than a true income tax.

requiring governmental services. In part, it was due to the undertaking of many collective services by urban municipalities. Despite these factors, the traditional preoccupation of British North American governments with economic development continued to dominate public finance and reached its greatest intensity during this period. Federal and provincial governments spent lavishly to open the doors of opportunity for private enterprise. In so doing, they encouraged the growth of a new economy, more productive and diversified but also more vulnerable in times of adversity. Its tribulations at a later date were to alter the character as well as the emphasis of Canadian public finance.

Chapter IV

THE WAR PERIOD 1914-21

Introduction—the general economic, political and social effects of the War

One of the immediate effects of the War upon Canada was to provide relief from accumulating economic difficulties. By 1914 the investment boom based on foreign borrowing had come to an end. It then became imperative to turn from the construction of capital works to greater production of exportable products in order to pay the interest on the large investments of the preceding decade. This major shift and readjustment threatened to be painful and prolonged, but under the stimulus of war demands the Canadian economy turned the corner with ease and expanded its production immensely in a very short period of time. By force of circumstances, Canada's foreign borrowings dwindled until they disappeared in 1917. In the later years of the War, the great expansion in production combined with the policies of the Federal Government enabled Canada to become an important lender, financing British purchases of Canadian goods.

In addition to stimulating expansion, the War gave the Federal Government a decisive role in directing the employment of the country's resources. Canada's war effort involved a massive concentration—in many respects, a consecration—of manpower and resources for a single over-riding purpose. The Dominion Government interpreted this purpose and co-ordinated the efforts of the country. It was the appropriate agency for driving towards this single objective, but in so doing it exhibited elements of a totalitarian technique inseparable from modern war. General enthusiasm for the Allied cause produced a remarkable unanimity among Canadians of all regions and classes in the early days of the conflict. Supported by this unique expression of national unity the Government threw all its power and authority into the prosecution of the War, and as the struggle deepened it redoubled its efforts and commitments. Its vigorous policies hastened and intensified the expansion of production which was made profitable by altered world conditions. The development of the economy as well as the occupations and interests of the people were directed, and considerably distorted, by the demands imposed upon the country by the War.

The first flush of enthusiasm waned as the War dragged on and became a trial of collective endurance and capacity for sacrifice. Lacking the tremendous unifying influence of a direct and immediate threat of foreign invasion, Canadians began to differ radically on the means best calculated to reach the results desired by all. This difference about means threatened the effective pursuit of ends and broke the party truce which marked the early years of the War. During the later years, the effects of the economic and financial policies, which the Federal Government had adopted to facilitate the maximum war effort, permeated the social structure with unexpected and unfortunate results. The economic cost of prosecuting the War pressed more and more unevenly on particular groups. The contrast presented by the beneficiaries of inflation and war prosperity caused hot resentment. The inevitable and appalling inequality of burdens and sacrifices involved in modern war became manifest.

The War provided at least a partial solution of the economic problems which faced Canada in 1914 but replaced them with political and social problems of a very disturbing kind. Prolonged concentration on the single purpose of winning the War put severe strains on political unity. The "conscription issue" and its aftermath ruptured both federal political parties. The War was a great strain on Dominion statesmen and it burdened the Dominion treasury with an enormous debt. Old sectional cleavages were revived and deepened and immediately after the conflict Canada was disrupted for the first time by class conflict. In the minds of many, the conduct of the War had denied and disproved the basic community of interest upon which federal initiative and leadership must always rest. The war effort of the Dominion was magnificent but it was at the price of temporary exhaustion and serious internal antagonisms.

In Canada, as in other countries, the War had revolutionary effects. Economically, there was a vast increase in productive capacity and a rapid development toward economic maturity. But the most profound changes were broadly social in character. A society which prided itself on equality of opportunity found itself being divided into

classes. The inequality of burdens and benefits arising out of the War promoted stratification. On the one hand, large government borrowings from the proceeds of war prosperity created a rentier class while, on the other hand, class consciousness appeared in the growing industrial population harassed by the steep rise in the cost of living. Their distress led to demands for government intervention. The success with which the Dominion Government had organized a peaceful society for combat showed how governments could alter the conditions of economic and social life. If governments could organize so effectively for destruction, they should be able to organize the conditions of the good life for their citizens. Under the pressure of social inequalities which became more and more evident, this changing philosophy of the appropriate sphere of state activity led straight to extensive government intervention in economic life and to the provision and further extension of a variety of social services. As will appear later, post-War intervention came mainly from the provinces.

From Wheat Boom to War Boom—major depression averted; Canada pays for War by swift rise in export production

The extravagant boom which attended the opening of the western wheatlands broke in 1913. It had been based on the inflow of foreign capital which financed a huge program of construction. This foreign capital was attracted by the confidence that wheat could be profitably grown for export on the Canadian prairies. In 1912, interest rates rose sharply in the London money market and, in 1913, the general price level, including the prices of Canadian exports, began to fall. The stream of capital imports which fed the growing prosperity of the country was checked. The prospects for profitable production of wheat became less rosy. The boom, which had been prolific of frantic real estate speculations, optimistic corporate mergers, and many rash enterprises of a public and private nature, suddenly collapsed.

The Canadian economy was at once faced with severe difficulties. It had been geared to a high rate of investment and construction. Between 1913 and 1914, the value of construction contracts awarded fell 37 per cent. Much of the labour and resources employed in the building of railways, harbours and canals, factories and rapidly growing towns, became idle. The slackening of construction brought a sharp curtailment in the Nova Scotia iron and steel industry, unemployment in the industrial cities of Central Canada and a steep decline in the production of lumber in British Columbia. The fall in export prices was aggravated by drought on the Prairies which cut short the crop of 1914. Caught between decreasing capital imports and falling export values, the economy which the wheat boom had brought into existence revealed its alarming vulnerability to external influences.

Adjustment to this situation required the diversion of idle labour and resources into the exporting industries to obtain employment and also to enable the country to meet the interest charges on its large external debt. Under normal conditions, this process would have been slow and painful involving a deflation of costs and prices and at least a temporary decline in industrial activity—the principal elements of a major depression. The first effects of the War were to intensify the adverse external influences and to deepen the depression which was settling down upon the country. The dislocation of normal international intercourse cut Canadian exports still further. The inflow of foreign capital came almost to a standstill because borrowings in London were being permitted only for war purposes. Unemployment was widespread in the winter of 1914-15.

After the middle of 1915, however, the dislocation of international economic intercourse became a great advantage to Canada. Britain and her Allies required vast quantities of supplies. The high cost of shipping and the readiness of the United States and Canada to supply credits directed a large part of the demand to North America. The principal requirements were foodstuffs and munitions. The former was Canada's main export and the production of the latter was quickly undertaken by the depressed manufacturing industry. From 1915 to 1918, the intensity of the demand grew ever greater and Canadian production reached new heights. The capital equipment built up during the wheat boom displayed a remarkable productive capacity and the labour force which built it was absorbed, either in the overseas forces or in the production of goods and services.

The insistent demand for foodstuffs brought a swift rise in the price level of Canadian exports. The prices of agricultural exports, in particular, rose much more rapidly than those of imports and of manufactured goods. As in the pre-War period, this gave an immediate and powerful incentive to the expansion of agricultural production. In the period between 1913 and 1919, the absolute increase in the area devoted to field crops was equivalent to the total increase which took place in the twenty years prior to 1913. In the

Prairie Provinces the acreage under wheat in 1919 was almost 80 per cent greater than it had been in 1913. In this short period, the number of cattle on Canadian farms increased by one-third. A wide variety of farm products received a less vigorous but nevertheless pronounced stimulus from the demands created by the War.

This expansion in the productive capacity of agriculture provided very substantial increases in the surplus available for export. The bumper wheat crop of 1915 with its record yields per acre and its large export surplus was the principal factor in attaining a favourable balance of merchandise trade and did much to extricate the economy from the doldrums of the two preceding years. Although the wheat yields during the remainder of the war period were disappointing and in 1918 and 1919 extremely poor, the average value of exports of wheat and flour during the 1917-19 period was more than double that of 1913.

While wheat was by far the most important export, the exports of other agricultural commodities showed even greater proportionate increases. Between 1913 and 1918, the exports of meat rose in value from $6 million to almost $85 million, live stock from $10 million to $35 million, and cheese from $19 million to $35 million. The exports of hay, oats, butter and eggs expanded greatly. Except where afflicted by drought, agriculture prospered. The increase in the value of its exports during 1914-19 over the immediate pre-war level was equivalent to fully four-fifths of the total Canadian money cost of the War.

Among other raw materials affected, non-ferrous metals enjoyed a sharp increase in demand. Despite progress in the development of mining, the problems of treating low-grade and complex ore-bodies had not been satisfactorily solved prior to the War. The high prices due to the War encouraged ingenuity in the search for methods of extracting the metals from these ores. Several important refining processes were discovered. High prices made the working of low-grade deposits profitable. Between 1913 and 1918, the quantity of copper produced rose 54 per cent, lead 36 per cent, nickel 86 per cent and zinc from a negligible quantity to 35 million pounds in 1918. The value of the output of these four metals rose from $29 million in 1913 to $74 million in 1918. This stimulus advanced the Canadian mining industry. The high prices disappeared after the War but the growth of interest in mining, the improved techniques, and the greater resources accumulated by mining companies out of profits were permanent gains to the industry.

On the other hand, the lumber industry made little headway. The decline in construction and the high cost of ocean shipping bore unfavourably upon it, and production fell off. It was not until a demand arose for wooden ships and for sitka spruce in the airplane industry toward the end of the War that the industry in the Maritimes and British Columbia received any special stimulus. Circumstances only indirectly connected with the War did, however, give a great impetus to the pulp and paper branch of the forest industry. The United States tariff had been removed before 1914 and the relative exhaustion of the forest resources of the United States, the exclusion of Scandinavian supplies due to the circumstances of the War, and the war-time growth in the circulation and size of newspapers gave the Canadian newsprint industry its opportunity. The exports of pulp and paper rose from $19 million in 1913 to $105 million in 1919.

There was an even greater rise in the output of manufactures. The favourable influences, derived from the national economic policies, which had brought about a rapid growth of the manufacturing industry during the wheat boom, were continued by the war-time expansion of western agriculture and the increases in the tariff in 1915 ($7\frac{1}{2}$ per cent in the General and Intermediate schedules and 5 per cent in the British Preferential). The disruption of imports from Central Europe, the decline in British exports, and the high cost of ocean shipping enabled domestic industry to secure a larger share of the home market. The increase in production of commodities of general consumption between 1915 and 1918 is indicated by the 10 per cent increase in employment in the textile, boot and shoe, tobacco, and furniture industries.

While the growing share of the domestic producer in the home market was a feature of the period, the greatest stimulus to manufactures came from British orders for munitions and war equipment. The decline in construction and the depression prevailing in 1914 had severely affected the manufacturing industry, particularly iron and steel. Immediately after the War opened, Canadian industrialists, whose plants were idle or operating below capacity, began to press for British munitions orders. From late 1914 to 1917, these orders were given in increasing volume until exports of shells and explosives rose to almost $390 million

in 1917. In the years 1916, 1917 and 1918, munitions made up about one-quarter of total exports and, for a considerable time, Canadian manufacturers were producing between one-quarter and one-third of the artillery ammunition being currently used by the British armies. Approximately a billion dollars worth of shells and explosives were shipped overseas and Canada supplied the Allies with ships and airplanes valued at more than $100 million. At the peak, about one-third of the Canadian manufacturing capacity was employed on war orders from other countries. Between 1915 and 1918, the total employment in manufacturing rose by 32 per cent. The iron and steel industry which had been hit very severely by the depression in 1914, reached a new record in volume of output.

Thus, during 1914-18, there was a remarkable expansion in the total production of goods and services. It was this increase in production which paid for the cost of the War. It also met the interest charges on the external debt which could no longer be financed by further foreign borrowings, and made possible (in contrast to European countries) the maintenance of a relatively high standard of living. Under the circumstances, this was the only way the War could be financed. A society which cannot borrow abroad and employ foreign industry to produce the material sinews of war is obliged to pay for its war expenditures out of the current production of its own economy. During 1914-18 Canada was unable to borrow abroad in any significant volume[1] and the country, taken as a whole, was compelled to pay for the War as it went along.[2] Table 20 shows the nature and extent of the extraordinary rise in exports.

TABLE 20.—MERCHANDISE EXPORTS

Millions of Dollars

Fiscal Years	Products of the Mine	Fish	Products of the Forest	Products of Agriculture	Manufactures		Misc.	Total
					Munitions	Other		
1913	57.4	16.3	43.3	194.9	—	43.7	0.2	355.
1914	59.0	20.6	42.8	251.5	0.2	57.2	0.3	431.6
1915	51.7	19.7	42.7	209.1	0.5	85.0	0.7	409.4
1916	66.6	22.4	51.3	352.6	81.0	161.0	6.7	741.6
1917	85.6	24.9	55.9	501.2	281.2	196.2	6.4	1,151.4
1918	73.8	32.6	51.9	740.4	386.3	250.5	4.5	1,540.0
1919	77.5	37.1	70.5	469.7	250.9	304.5	6.2	1,216.4
1920	62.3	42.3	105.3	624.4	12.1	391.0	2.1	1,239.5

[1] For total Federal Government borrowings abroad during the War period, see p. 103.

[2] For further discussion of the means which made this possible, see pp. 99, 100.

In a very short period of time, the Canadian economy was delivered from a heavy dependence upon capital imports and showed its capacity to produce a large surplus of goods to be shipped abroad for war purposes and to provide, in this way, during the last two years of the War, sizeable capital exports. This quick transformation was not wrought by magic. Goods and services had to be diverted from the usual channels of investment and consumption to meet the requirements of the War. This large diversion was mainly accomplished by the financial and economic policies which the Federal Government was able to carry through. The character and effect of these policies determined the nature and extent of Canada's participation in the War and also, in a great measure, the impact which the War was to make on the political, social and economic structure of the country. To understand these policies and account for the vigour with which they were applied, it is first necessary to recall the political atmosphere created in Canada by the War in Europe.

1. The War and National Unity

A United Nation Enters the Conflict—War efforts evoke a strong spirit of unity and nationalism

There is no need to emphasize the unanimity of conviction with which Canada threw itself into the struggle. It is true that, from the very beginning, there was a latent difference of opinion as to whether Canada was involved as a principal and committed to the totality of its powers. But as no one had at that time any conception of the colossal scale of the struggle and the sacrifices it would entail, this difference was passed over and did not emerge for discussion until the later years when it was driven into the open by the logic of events. Citizens of all occupations, political persuasions and religious beliefs pronounced the cause to be just and Canada's participation unquestionably necessary. Even one as openly critical of British imperial policy as Henri Bourassa declared that it was "Canada's national duty to contribute, within the bounds of her strength and by the means which are proper to herself, to the triumph, and especially to the endurance, of the combined efforts of France and England."[3]

Canada had never before seen such a demonstration of national unity. For some time, the solidarity of national sentiment was the dominant feature of Canadian life. Personal interests were

[3] *Le Devoir*, Sept. 8, 1914; quoted by Elizabeth Armstrong in *The Crisis of Quebec, 1914-18*, p. 78.

subordinated to the demands of a united effort and, for the great majority of people, the winning of the War became the prime objective of national existence. The evidence of a single national purpose was unmistakable and sufficed to give to the Federal Government immense moral authority in keeping with its sweeping legal powers.

The crisis brought a truce in party strife which was maintained, in essentials, for over two years and which enabled the Parliament elected in 1911 to prolong its life (with the approval of the Imperial Parliament) until the fall of 1917. In the Special Session of Parliament in August, 1914, the War Measures Bill which gave sweeping emergency powers to the Government was quickly and unanimously enacted. The Opposition did not entirely give up the right to criticize the Government, as its strictures upon war contracts, fiscal policy and the conduct of the Department of Militia and Defence showed, but frankly partisan obstruction disappeared.

Although the party truce broke down in later years, the spirit which enforced it in the early years was strong enough to bring about the formation of the Union Government in 1917.

The crisis also imposed a truce on Dominion-provincial contention. In 1912 and 1913 the provinces had again begun to demand further increases in subsidies. With the coming of the War and its great financial responsibilities for the Dominion, this claim went into abeyance. So also did the federal power of disallowance which was used on only one occasion during this period. Provincial political leaders did not challenge the drastic policies pursued or the far-reaching powers exercised by the Dominion during the War. On the contrary, they played a large part in the formation of the Union Government. Family bickering was stilled in the presence of larger issues. Provincial politics and provincial interests were overshadowed by the magnitude of the common national purpose. The efforts of the Dominion absorbed the attention of the people and commanded for the time, at least, the overwhelming support of public sentiment. Despite the range of the activities of the Federal Government and the degree to which its actions affected the lives of the people in every part of the Dominion, there was no organized or systematic protest by the provinces. When protest came, it came in the sphere of federal politics, out of the discontent of cultural, class and sectional interests and not through provincial governments. For a time, Canada exhibited the essential features of a unitary state.

The conscious nationalism which accounted for the temporary eclipse of provincialism made itself felt in external relations. It disposed the Dominion Government to regard Canada's participation in the War as that of a principal combatant and not merely as that of a satellite of Great Britain. The Canadian Army Corps was maintained as a separate unit in the field and was ultimately commanded by a Canadian. In 1916, the establishment of a Ministry of Overseas Military Forces in London brought the Canadian troops directly under the control of the Dominion Government. Where independence of action was not possible, the Dominion bid for a share of control in centralized effort. The Imperial War Cabinet provided, in an indirect but substantial way, for participation of the Dominions in the direction of the War and the Imperial War Conference of 1917 recognized "the right of the Dominions and India to an adequate voice in foreign policy", to be made effective through machinery for consultation and concerted action. After the Armistice, when the urgency for unified effort declined, the stress shifted to autonomy. While the all-absorbing sense of national unity did not survive the War, some elements of the conscious nationalism evoked by it retained their strength. With Canada leading in the demand, the Dominions got separate representation at the Peace Conference and in the League of Nations. And however much the Dominion Government may have receded from leadership in internal affairs in the post-War period, it found sufficient support for vigorous pursuit of Dominion status.

The Conscription Issue—the disruption of national unity, the political isolation of Quebec, the unfortunate effects on Canadian federalism

It was generally agreed at the outset that it would be a short war and that there was no doubt about its conclusion. The first plans for military participation involved only the sending of a single contingent of 25,000 men. It gradually dawned upon people that there was no assurance of an early decision and the military contribution was repeatedly increased until, at the beginning of 1916, the Government announced the desirability of raising the overseas forces to half a million men. The struggle became one of the endurance of peoples, as well as of armies, with all their material and spiritual resources engaged in it. Food supplies, munitions and every kind of materials became as vital to the success of the conflict as soldiers. The Government directed the production

and arranged the financing of supplies for the Allies on a great scale. By 1917, it was reluctantly seen that even the issue was in doubt and that an Allied victory could only be ensured by a supreme effort. It also became clear that the Federal Government saw Canada's most vital interests at stake in the struggle and that there were no reservations or limitations on its willingness to pledge Canada for the sake of victory.

As the Federal Government called for greater effort and sacrifice in pursuit of this supreme objective, the vague differences of opinion about Canada's relation to the struggle became practical questions. Was it engaged as one of the principal combatants or merely as a voluntary helper of Great Britain? If engaged as a principal to the full extent of its powers, in what way could the country make the most effective contribution to the common cause of the Allies? Differences of opinion always exist as to the means of reaching an agreed objective. Because there was no overpowering sense of immediate peril such as is raised by foreign invasion or the direct threat of it, many people were not readily convinced of the urgency to subordinate differences to the prime necessity of united action. As the commitments became deeper month by month, public discussion of and dissent from the policies of the Federal Government became inevitable. The practical issue upon which these differences of opinion began to widen into cleavages over policy was the question of the extent of the military contribution which Canada ought to make.

Discussion of conscription and other issues which were so disturbing to national unity over twenty years ago is a delicate matter even at this late date. But the political issues of the war period left so enduring a mark upon the Canadian federal system that they cannot be ignored. At the risk of being misunderstood we have, therefore, felt it imperative that these issues should be recalled and set out as objectively and fairly as possible.

Before conscription became a burning political question, there had been marked differences in the ratio of enlistments among the different elements of the population. Naturally enough, the response of the British-born had far exceeded that of the native-born. In the early stages, recruiting had been particularly brisk in the towns, although it fell off when the great increase in industrial activity created conditions of full employment. It was never so marked in the countryside which lacked contact with military traditions and never felt the organized social pressure for enlistment which operated in the towns. These factors which affected the rate of recruiting in all areas of Canada might be expected to manifest themselves in a more pronounced way in the Province of Quebec.

There was a difference between English-speaking Canada as a whole and French-speaking Canada in the response to voluntary recruiting. There has been much controversy as to whether any significant difference existed after the adjustments necessary to provide fairly comparable conditions are made. In answer to reproaches made against Quebec, it has been maintained that if allowance is made for the much higher proportion of British-born in the English-speaking parts of Canada and for the predominance of rural conditions in Quebec—conditions which materially affected the rate of recruiting in English-speaking areas—the response of native-born Canadians did not differ significantly in Quebec from the rest of Canada. On the other hand, the validity of this explanation has been denied. Data to test these contentions are not available and probably can never be secured.

Even if there were marked differences, not to be explained by making these adjustments, it need not cause surprise. There were several immediate and some underlying factors making for difference. Among the official spokesmen of the Dominion Government in Quebec were men who had fought with Bourassa against Laurier and the Naval Bill and they could scarcely be expected to rouse enthusiasm for a vigorous war policy. There were serious and exasperating mistakes in the management of recruiting in the Province, mainly through lack of sympathetic appreciation of how a sensitive people cherished their distinctiveness.

There were basic factors which lay much deeper. The French-speaking Canadians had been established in Canada for centuries. They were the oldest Canadians of European stock and they were much more firmly rooted in North America than their English-speaking fellow-citizens. Their political connection with France had been severed 150 years before and they had never formed a close sentimental attachment for republican France with its anti-clerical associations. Their undoubted loyalty to Great Britain was a reasoned rather than an instinctive loyalty. It lacked the emotional pull which was essential to command deep sacrifices in a remote European war. While the rest of Canada was deeply affected by living or remembered links with the British Isles and by United Empire Loyalist and Imperial tradition, their experience and memories were essentially North American. It was not unlikely, therefore, that the attitude of the French-speaking Canadians toward a prolonged

war in Europe would differ from that which prevailed in the rest of Canada.

Before the War, Ontario had limited the use of French, both as a language of instruction and a subject of study, in the schools of the Province. French-speaking people of Ontario had vigorously resisted the enforcement of this regulation. They contested its constitutionality and the case dragged through the courts until its validity was finally upheld in 1916. In that year, Ontario enacted further legislation in support of its separate school policy and the Federal Government declined to disallow it. The dispute over the bilingual school question, as it was called, went on with increasing bitterness, revealing the gaps which divided French-speaking citizens, in feelings and interests, from English-speaking Canada and emphasizing again the difficulty of tolerable accommodation between the two races. On the instance of Sir Wilfrid Laurier, a resolution was introduced in Parliament deploring the action of the Ontario Legislature.[4]

The Conservatives of Quebec with Nationalist tendencies joined the Liberals from that Province in voting for the resolution; the Western Liberals voted against it and it required the full exercise of Sir Wilfrid's prestige and authority to hold the Ontario Liberals in line. The disruptive potentialities of the old racial issue even in face of the national emergency were clearly shown. The split over the bilingual question foreshadowed the much more serious division on the issue of conscription. The principle of the political co-operation of the two races in the two federal parties had already begun to break down in 1916, because one of the races was being rapidly consolidated behind one of the political parties.

The dispute over the separate school policy of Ontario embittered the debate on conscription. The French-speaking Canadians of Quebec were deeply roused by the action of Ontario. Their language was one of their most vital interests. The majority of the political leaders in Quebec strove to prevent the bilingual issue from diminishing Quebec's support of Canada's war effort. But the issue led many into bitter opposition of Canada's participation in the War. They insisted that the English-speaking leaders of the Dominion were sacrificing the real interests of Canada to British Imperialism. They maintained that no further sacrifices for the preservation of British civilization in Europe should be made at a time when a British attack was being made on the culture of French Canada at home.

[4] The resolution was actually introduced by Mr. Lapointe and is commonly known as the "Lapointe resolution".

The Nationalist agitation in Quebec aroused both extremist and moderate groups in other parts of Canada. It was assumed that the Nationalists spoke for Quebec as a whole and Nationalist propaganda was cited as the reason for the lower ratio of enlistments in Quebec. These charges of disloyalty, which multiplied rapidly, caused resentment among the French-speaking Canadians who had supported participation in the War and provoked recriminations which, in turn, drew further retort from English-speaking Canadians. It was a vicious circle in which mutual misunderstanding and mutual reproach seemed to be endless. When this stage was reached, it inevitably diminished the support which Quebec gave to the supreme objective of the Federal Government. The bilingual issue loosed a chain of consequences which helped to prepare Quebec for united resistance to conscription.

Quebec was not alone in its opposition to conscription. Organized labour and agriculture, by this time alarmed and burdened by rising prices and roused by the glaring inequality in the distribution of war profits, raised their voices against it. Late in 1916, the Government established a National Service Board to take an inventory of man-power. Despite disclaimers by the Government, this scheme was widely regarded as a precursor of conscription. The Trades and Labor Congress recorded its disapproval of both national service registration and conscription. Some spokesmen for agriculture lashed out at profiteers and demanded that any census or conscription of men should be accompanied by similar treatment of wealth. This demand was reiterated in the public debate on the conscription issue itself.

At the time the policy of conscription was announced, the Government was urging the maximum effort at food production. As the reserves of agricultural labour were depleted, the Government made repeated promises of liberal exemptions from military service to farmers' sons. These promises did something to calm the agitation in rural Ontario against the introduction of conscription. But cancellation of these exemptions in the spring of 1918, owing to the unexpected and desperate situation on the Western Front, brought an immediate and determined protest. A huge deputation of Ontario and Quebec farmers made a profitless visit to the Government at Ottawa and returned home angry and resentful at what it regarded as a breach of faith by the Government.

When the Government announced that conscription would be imposed, trades and labour councils

across the country voted resolutions condemning the conscription of men and demanding the conscription of wealth. Although the annual convention of the Trades and Labor Congress in 1917 gave qualified approval to the conscription policy of the Government, it significantly gave its blessing to a resolution approving the formation of a labour party for political purposes. In its view, the interests of labour were failing to find expression in the Federal Government's interpretation of the supreme national purpose.

In Quebec, the proposal of conscription met with general opposition. Popular agitation against it throughout the Province deepened into mass demonstrations in Montreal in the closing days of August, 1917. Within Parliament itself, the issue revealed to the full its disruptive force. It completed the disintegration of the federal political parties. Among Liberals from the English-speaking provinces, devotion to their old party leader was overborne by what was conceived to be the inexorable demands of the War, and close friends and personal lieutenants of Sir Wilfrid spoke and voted for the military service bill. On the other hand, the erstwhile Quebec Nationalist supporters of the Government voted against the measure. Within the walls of Parliament, the Liberal Party was becoming identified with the Province of Quebec and Parliament itself was dividing on racial lines.

Despite passionate opposition the policy of conscription commanded the support of a majority of the people of Canada. They accepted it as vital to the supreme national objective of winning the War. The most critical phase of the struggle which was reached in 1917, combined with the serious threat of internal dissension, led to a closing of the ranks. Although the idea of a coalition for the purposes of the War was not new, the conscription issue brought the agitation for a union government to a head. The existing Government had no mandate to introduce it and a drastic measure certain to arouse resistance could not very well be enforced except by a national non-partisan government.

With several leading Liberals sharing in the initiative, the Union Government was formed and the ensuing election was fought on its interpretation of the means necessary to make the greatest possible contribution to the Allied cause. During the election campaign, racial passion reached a climax of bitterness. In the result, the Union Government swept English-speaking Canada while Quebec gave solid support to Sir Wilfrid Laurier's opposition to conscription. Out of the 143 candidates elected who were endorsed by Union Government, all but three were returned in English-speaking Canada; 60 out of the total of 77 elected candidates endorsed by Sir Wilfrid Laurier were elected in Quebec. However, the popular vote was not so one-sided. The Liberal Opposition (excluding all the minor parties and independents) received about 42 per cent of the total civil vote. Outside of Quebec the Government elected 82 per cent of the members with 62 per cent of the total civil and military vote; the balance was split between the Liberal Opposition and a scattered number of independents, many of whom supported the Government on the conscription issue.

TABLE 21.—VOTES CAST IN THE 1917 FEDERAL GENERAL ELECTION[a]

(*Thousands*)

—	For Candidates Officially Endorsed by Union Government	For Candidates Officially Endorsed by Sir Wilfrid Laurier	All Other
Civil Vote—			
Quebec—Urban [b]	38	106	7
—Rural [b]	24	232	19
Other Canada—			
—Urban [b]	351	156	62
—Rural [b]	496	306	110
Total Civil Vote	909	800	198
Military Vote	215	14	5
TOTAL	1,124	814	203

[a] The potential vote in constituencies where acclamations occurred was estimated on the basis of results in other provincial constituencies.
[b] Urban-rural division only approximate.

The long standing quarrel between the Nationalists and the Liberals in Quebec was healed at last. The old Liberal Party was shattered in Parliament[5] and in Quebec it became temporarily identified with the racial interests of the majority in that Province.

In the breakdown of old party lines, new political movements began to appear. Labour hastily constructed a political organization and ran a number of candidates, many of whom were opposed to conscription. The various farmers' movements took no separate part in the campaign. However,

[5] It was the organization and leadership of the Liberal Party that suffered most. As later events showed, there was no permanent disaffection of its rank and file supporters.

resentment at the manner in which the Military Service Act was applied in the following year gave an impetus to political action by farmers' organizations and immediately after the close of the War they took advantage of the confusion and weakness in the Liberal Party to enter the political field.

Canadians are reluctant to recall the events which reopened old antagonisms and renewed distrust and bitterness between the two races. It is imperative that the distrust and the bitterness should be forgotten but it has been necessary to recall the events which provoked them because they have had a deep influence on the subsequent history of Canadian federalism and because they point to certain general lessons about the operation of the federal system in Canada.

The united effort required of a nation by modern war places a great strain on the political unity of any people. But the events of the Great War provide the most striking illustration of the peculiar character and the limitations of the Canadian political system. The War gave predominance to the Federal Government and set a single objective for all Canadians. In a sense, the War was a great national enterprise, a corporate endeavour by the whole country. The instinctive diversity of Canadian life did not long remain constant to a single conception of ends and means. Compromise and co-operation broke down into dissension, and coercion was resorted to as the only means of driving on to the chosen objective.

It must be emphasized again that collective action through the agency of democratic government implies a common purpose and an agreed method of achieving it. If the common endeavour is one with respect to which deep impulses in the community arouse differing conceptions, it is likely to break down and the consequent disharmony will embarrass all the common enterprises which have been entrusted to the government. A population of common origin and traditions, deeply habituated to think alike on fundamental issues, may be readily able to maintain the agreement necessary for collective action affecting the whole range of community life. Canada lacks that homogeneity and this, in turn, limits the extent of collective endeavour which can be effectively organized under Dominion control.

This is why Canada is a federal state and must remain so. Deep underlying differences cannot be permanently overcome by coercion. There are, of course, many matters in which there is sufficient community of interest and purpose for them to be entrusted to the Federal Government and they are increasing. Modern transportation and communication and the integration of the economy lift many matters to the level of general interests which might, if agreed upon, be cared for by the Federal Government.

The illumination thrown upon the federal system by the events of the War period strengthened tendencies and opinions already evident in Quebec. To those who believed in the largest possible powers for the provinces, it seemed to confirm the policy which had commended itself to them in the past. Here was a demonstration that where the interests and ideals of French-speaking and English-speaking Canadians did not run side by side the federal powers were at the disposal of the majority. The importance to them of section 92 as a protection to their institutions and cherished values was thereby increased. Because government action is always laden with unforeseen and unexpected result, Quebec became still further disposed to question any increase in federal power.

Although this view was not universally accepted in Quebec, its influence reinforced earlier tendencies and gave Quebec a deeper distrust of federal power. Quebec became, more than before, a watchful guardian of provincial rights. In this way, the political experience of the War has had a pervasive influence on the subsequent history of Dominion-provincial relations. In other ways too, it has had far-reaching results. In its calamitous effect upon the federal political parties, it seriously damaged federal initiative in internal affairs in the post-War period and thus added to the political strength of the provinces without increasing their financial resources.

2. The War and the Canadian Economy

War Finance—war costs met by internal borrowing; loan funds made available by inflationary credit policy

It has already been remarked that the political unanimity with which Canada greeted the War enabled and even compelled the Dominion Government to embark on a vigorous use of the constitutional powers of the Dominion in directing the war effort.[6] The pledge of Canadian lives was backed by the pledge of Canadian

[6] *The War Measures Act* of 1914 authorized it to employ a wide range of powers, many of which were beyond its peace-time constitutional capacity.

economic resources. To ensure the most effective use of these resources, the Dominion Government employed the powers at its command throughout the war period. Through the use of them, it launched and enforced a number of economic and financial policies which governed the public finance operations of the Dominion during this period and enabled the country to become a great source of essential supplies for the Allies. These policies also had a profound permanent effect upon the economic and social structure. Therefore, they must be considered in some detail.

The outbreak of the War found Canada in a deepening depression. The financial upheaval and uncertainty further aggravated the situation. The large current surpluses of the previous years had disappeared. The Government was faced with the necessity of obtaining large loans to complete its capital program and to meet the huge war expenditures which loomed ahead. Abroad the money markets were virtually closed; a run on the banks threatened at home.

The exigencies of the War at once forced the Federal Government into an aggressive role. Early in August, 1914, the redemption of Dominion notes in gold was suspended, bank notes were made legal tender, the banks were permitted to use the excess circulation privilege[7] the year round and finally the Government was empowered to make advances of Dominion notes to the banks upon the pledge of approved securities. While these measures averted the immediate danger to the banks, they also provided the mechanism for inflation. The restrictions thus abolished and the devices set up provided the machinery for an expansive credit system and placed it at the disposal of the Federal Government.

The financial requirements of the Dominion for the fiscal year 1914-15 were met in various ways. The customs duties on coffee, liquors, sugar and tobacco were raised and special excise taxes were imposed on liquors and tobacco. These increases in taxation, however, were expected to yield only $15 million. Approximately $156 million ($61 million for War, $93 million for capital and $2 million current deficit) were required in addition to the total current revenues for the year. It was not thought advisable or possible to pay for the whole cost of the War out of taxation or borrowings at home. Arrangements were made with the Imperial Government to finance the Canadian cost of the War and in the fiscal year 1914-15 almost the entire borrowings needed for the purpose were obtained from that source. The capital expenditures were met by $40 million of loans in London, a $39 million fiduciary issue of Dominion notes[8] and a short term loan from the Bank of Montreal. The early period of the War thus occasioned no immediate strain on the economy. Aside from the issues of Dominion notes and a small amount of temporary loans, the whole of the war cost and the capital disbursements were borrowed abroad.

Early in 1915, the first special war taxes were imposed. Taxes were placed on bank note circulation, on the gross income of loan and trust companies, on the premium income of life insurance companies, on telegraph and cable messages, on railway and steamship tickets and on sleeping and parlour car accommodation. Postage rates were increased and stamp taxes placed on cheques, bills of exchange, etc. Imposts were made on patent medicines, perfumery and non-sparkling wines. An additional 7½ per cent was levied on imports under the General and Intermediate tariff schedules and 5 per cent on items under the British Preference. These taxation increases which were expected to yield about $25 million went, however, only a small way toward meeting the Government's financial needs of $166 million during the fiscal year 1915-16.

The arrangement with the Imperial Government to finance the Canadian costs of the War broke down in the summer of 1915 when sterling exchange went to a large discount. Henceforth Great Britain could do no more than finance the Canadian war expenditures made overseas. The Federal Government was faced with the necessity of itself raising the money for its war costs incurred at home and for making advances to Great Britain to meet an increasing share of the British war purchases in Canada, if these purchases were not to be sharply curtailed. With the London money market closed, New York was the only other possible source of foreign funds. A loan of $45 million was obtained there in July, 1915. For the remainder of its requirements, the Government was obliged to turn to the Canadian investor.

Before the War, the Federal Government had never raised as much as $5 million in Canada by way of a long term loan. In 1914, less than $700,000 of the entire federal debt was payable in

[7] Hitherto the banks had been permitted to issue their notes in excess of their combined paid-up capital and rest or reserve funds up to 15 per cent during the crop moving season from September to February inclusive.

[8] The amount of Dominion notes that could be issued against a 25 per cent reserve of gold was increased from $30 million to $50 million, $16 million of Dominion notes were issued against guaranteed railway securities and $10 million were issued for general government purposes.

Canada. However, the remarkably large crop and the war orders of Britain and her Allies had brought a return of prosperity by the autumn of 1915. With the low level of private investment and the expanding profits induced by the rising price level, there was a considerable accumulation of funds. The domestic loan offered in November, 1915, produced $100 million subscribed almost wholly by financial institutions and other business organizations.

During 1915-18, Canada's war effort was rapidly increased. The growing burden had more and more to be supported by Canada's own resources. The Imperial Government provided the funds for the war expenditures overseas. The Canadian Government paid the costs incurred at home and made advances to Great Britain for a considerable part of her purchases in the Dominion. During the last two years of the War, the Canadian advances to Great Britain (including those made by Canadian banks) far exceeded those of Great Britain to Canada. Canada was, in effect, buying a large part of her own exports and shipping them abroad where they paid for the cost of the War. The extent of Canada's contribution to the conflict, therefore, depended upon the ability of the Federal Government to obtain money to finance the exports. The more money it could raise at home, the more exports and production could increase and the more extensively the country could engage in the struggle. Three methods were available to the Government for the acquisition of funds: taxation, borrowing, and the issue of Dominion notes. Although special war taxes were imposed they produced but a relatively small part of the amount required. The issue of Dominion notes could be used only to a limited extent. The bulk of the funds had to come from borrowings.

The amount of money which was obtainable by means of domestic loans depended upon the savings of the community and the extent to which private investment was reduced. As ordinary savings became insufficient, the Government adopted the only policies then open to it, which had the effect of both increasing and of redistributing the national money income in a manner which gave a larger portion to business organizations and wealthy individuals whose profits or surpluses could be borrowed in large amounts by the Government. This expansion and redistribution of money income was brought about by the expansion of bank credit, i.e., inflation. Prices and the cost of living (selling prices) rose more rapidly than average wage rates and interest on old debts (costs).[9] The profits of industry and property incomes, therefore, increased while the real income of wage earners and individuals receiving interest payments at fixed rates, declined or rose less rapidly. It was this relative, and in some cases absolute, reduction in the real income of one section of the community, and the creation of large surpluses in the hands of another (which would lend these surpluses to the Government) combined with the great increase in gross production that made the surprisingly large war loans possible.

During the fiscal year 1916-17, the Canadian war expenditures rose to $307 million. Ordinary capital expenditures absorbed another $82 million. In that year the Federal Government required nearly $400 million in funds. To increase the revenue from taxation and to reduce the net profits derived from war activity, a business profits tax, retroactive to the beginning of the War, was imposed early in 1916. One-fourth of all net profits (except in life insurance and agriculture) in excess of 7 per cent on the paid-up capital of incorporated enterprises and in excess of 10 per cent on the paid-up capital of unincorporated enterprises was taken in taxes by the Government. Businesses with a paid-up capital of less than $50,000 were exempt, excepting those engaged in the production of war supplies and munitions. The return of prosperity and the special war taxes produced a current surplus of $84 million for the year ending March 31, 1917, which slightly more than covered the ordinary capital requirements. The war expenditures had to be met by borrowing. Fifty million dollars were obtained in New York. The remainder was raised in Canada.

During late 1916 and early 1917, the expansion of bank credit got under way in earnest. The banks advanced $100 million to the Imperial Munitions Board for expenditures in Canada and established a revolving credit of $20 million for the Imperial Government for the purchase of wheat. They supplied the Canadian Government with $100 million by the purchase of its treasury bills. Current bank loans to business rose by $73 million between March, 1916 and March, 1917. These increases in purchasing power were an important factor in bringing about a swift rise in

[9] Wages in certain war industries and of certain unskilled groups rose more rapidly than the cost of living, but the wage rates received by a large section of labour, particularly the skilled trades and the white-collar class, fell behind the rise in the cost of living. The Dominion Department of Labour index of the general movement of wage rates (excluding professional workers and the white-collar class) rose 25 per cent between 1913 and 1917, while the Dominion Bureau of Statistics index of the cost of living rose 31 per cent.

prices and a rapid expansion of production, money incomes and profits. In September, 1916, and March, 1917, the Federal Government floated with ease domestic war loans totalling $250 million.

In 1917 and 1918, Canada's participation in the struggle became more and more extensive and the costs of financing it increasingly burdensome. In each of these years the Federal Government required between $500 and $600 million. The credits granted to Great Britain for her purchases in Canada reached large proportions.

During 1917, the banks made further advances to the Imperial Government amounting to $150 million for the purchases of munitions and wheat. They continued to finance the Dominion for short periods by taking large amounts of its treasury bills in anticipation of the war loans. Current loans to business rose $38 million in 1917 and $217 million in 1918. In these two years the quantity of money (paper notes in the hands of the public and bank deposits) available in the country rose by nearly 40 per cent. This expansion of credit was made possible by the increase in the cash reserves of the banks brought about by the action and policies of the Federal Government. In 1917 there was another fiduciary issue of Dominion notes of $50 million bringing the total to $90 million since the beginning of the War. In addition, large amounts of Dominion notes were issued to the banks by rediscounting their securities under the Finance Act. Imperial Government treasury bills held by the banks were rediscounted at 3½ per cent, a rate considerably below the market rates of interest. With the machinery provided by the Finance Act, the banks could increase their cash reserves to any extent that their lending opportunities made profitable. At the end of 1918, bank cash was more than double, and deposits nearly double of what they had been at the end of 1913.

The rapid expansion of credit both in Canada and abroad produced a swift rise in prices. Between 1916 and 1918, the Canadian wholesale price level and the cost of living rose 51 per cent and 34 per cent respectively. The rate of earnings of a considerable section of the community, however, rose more slowly. Real wage rates of large groups of labour (principally the skilled trades and the white-collar class) were appreciably below 1913. The decline in the real income of many wage-earners and of investors in pre-War bonds and mortgages resulted in a rapid increase in business profits, which, together with the rise in the national money income, the war-time increase in thrift and the reduction in private investment made available large funds for the Federal Government. During the fiscal years ending March 31, 1918 and 1919, the Dominion obtained (net) by means of domestic loans $516 million and $589 million respectively. The relative, and in some cases absolute, decline in the standard of living suffered by certain groups, the increase in savings, and the postponement of needed capital facilities helped to make these war loans possible and represented the sacrifices necessary for the conduct of the War.[10] The effects of the inflation spread these sacrifices unequally.

During the War, the taxation imposed by the Dominion was rapidly extended in scope but the increased returns did little more than meet the ordinary current and capital requirements and the interest on the sharply mounting debt. In 1917 the business profits tax was raised and a Dominion income tax was levied for the first time. In 1918 the exemptions for the business profits tax were lowered and the income tax increased. Excise taxes were imposed on a number of luxuries, including motor cars. During the fiscal year ending March 31, 1919, the special war taxes yielded $56 million or 18 per cent of the total current revenues.

Although the War ended in November, 1918, the heavy cost of demobilization and soldiers' civil re-establishment kept Dominion expenditure at war-time levels for another year and a half. The expansion of bank credit and the precipitous rise in prices continued into the first half of 1920. In the autumn of 1919, the final domestic war loan, which produced about $600 million, was floated.

The transition from war to peace was accomplished with remarkable ease. Half a million soldiers were re-absorbed into civil pursuits without much unemployment or industrial disturbance. The large gap left by the abrupt stoppage of munitions orders was quickly filled by new demands. Exports to war-torn Europe continued at a high level on the basis of large American loans. The Dominion advanced $46 million to foreign countries which was used to buy goods in Canada. There was a strong demand not only for foodstuffs but also for manufactures. The exports of the latter rose to $391 million in the year ending March 31, 1920. Much of the slack due to the cessation of war orders, particularly as it affected the steel industry, was taken up by the shipbuilding

[10] The huge amount of material goods and services required for the prosecution of the War was largely provided by the increase in production. The problem, however, was to divert this production from private consumption and investment into the hands of the Government. The policies followed to bring about this diversion caused some groups to give up relatively more than others.

program for the Dominion and foreign governments.

The stimulus from abroad was reinforced by internal developments. The cessation of the War was followed both by an upsurge of consumer-buying and a sharp increase in construction activity. The provincial and municipal governments quickly began to provide the community facilities and the developmental projects which the War had postponed. The Dominion increased its outlay on public works, made large expenditures in consolidating and equipping its railway system and granted loans to provinces for the construction of houses. Private industry expanded its equipment and built up inventories. There was an inrush of American branch plants. These activities, capped by the Dominion's heavy outlay on demobilization and the civil re-establishment of soldiers, maintained the post-War boom until the summer of 1920, when the world-wide deflation forced its collapse.

War-time Regulations of Business and Industry—its effects on social philosophy and the post-War expansion of government responsibilities

The beginning of the post-War depression marks the end of an important phase of Canadian development. The War had wrought many profound changes in public finance, in the economic structure of the country, in social conditions, and in the public conception of the role which governments ought to play in society. Before summarizing the transformation made by the War in the financial position of the Dominion, it is important to note the extent of government intervention in economic life which the War-effort involved because it was a significant factor in changing the popular view of the appropriate sphere of governments.

The first objective of the Federal Government was to win the War and it tried to order all effort to that end. Where it seemed imperative for its purposes the Government undertook to direct the employment of the economic resources of the country. It encouraged in every possible way the production of munitions, and exhorted Canadian farmers to increase their production of food as greatly as possible. But many of its efforts went beyond encouragement to active intervention and control. The scarcity of certain vital supplies led it to undertake the rationing of them in a way calculated to assist its efforts. When the inflation connected with the financing of the War drove the cost of living steeply upward, the Government sought to limit its unequal effects by imposing further economic controls on business. By the conclusion of the conflict, the Federal Government was in possession of far-reaching powers over economic life. The fact of an unprecedented emergency ensured the constitutional validity of the measures of economic regulation which were adopted.[11]

From the very early days of the War, the Government exercised a number of unusual powers such as the censorship of the press and cable despatches. However, it was not until the later days, when the inflation had manifested itself in the cost of living, and serious shortages of essential materials began to be felt, that extensive economic regulation was undertaken. In November, 1916, an Order in Council forbade hoarding and accumulation of the necessaries of life. Persons with excessive stocks of these articles were required to sell them at reasonable and just prices and the Government was given wide power to investigate and punish violations. In 1918 housing rentals became subject to the same regulations as other necessaries and municipal councils were authorized to establish Fair Price Committees to investigate the prices of necessaries and publish their determinations of a fair price.

In 1917 the Government assumed control of the marketing of Canada's principal product. The Allied Governments had become virtually the sole foreign buyers of Canadian wheat and they needed it at any price. Thus with the prospect of a short crop in 1917, it became probable that the normal market mechanism would result in famine prices. The Canadian Government intervened on behalf of the Allies by establishing a Board of Grain Supervisors with power to investigate all sources of supply and to ration the available grain between domestic millers and the Wheat Export Company, which was the North American purchasing agency for the Allies. This Board fixed export and domestic prices and controlled the marketing of the 1917 and 1918 crops. It was succeeded in 1919 by the Canadian Wheat Board which acted as an exclusive marketing agency for the crop of that year, superseding the normal marketing facilities of the Canadian grain trade.

As the prices of the necessaries of life, particularly food, continued to rush upward, the Food Control Office was established in 1917 with powers to inquire into available supplies and the reasons for high prices, to determine Canada's food requirements, and to facilitate the export of surpluses. It

[11] *Cf. Fort Frances Pulp & Paper Co.* v. *Manitoba Free Press*, [1923] A.C. 696, with *In re Board of Commerce Act*, [1922] 1 A.C. 191 and see pp. 97-8, *infra*.

was also given power to fix prices and to regulate consumption. In 1918 its powers were transferred to the Canada Food Board which was authorized to direct the production, conservation and distribution of foodstuffs.

The Board licensed, and imposed a variety of restrictions on, processors and dealers in foodstuffs. Although, with a few exceptions, it did not attempt to ration consumption, it did ration the bulk distribution of various commodities among processors and dealers. Importers and exporters were licensed and the use of grain in distilling liquor was prohibited. Public eating houses were subjected to close supervision.

Although the Food Board did not attempt to fix retail prices, it established, in co-operation with the Board of Grain Supervisors, a fixed spread between the price of wheat and the price of flour. It also fixed the price to be paid to the British Columbia fishermen for salmon. Separate Orders in Council fixed the price of newsprint for Canadian consumers and limited the profits of the packing industry by providing that profits in excess of a fixed rate should become the property of the Government.

The coming of the Armistice did not reverse the upward trend in the cost of living. In the face of public clamour over high prices, many of the powers which the Government had exercised under the authority given by the War Measures Act were conferred by Parliament on the newly created Board of Commerce. The Combines and Fair Prices Act of 1919 continued the former prohibitions against hoarding and undue enhancement of the price of necessaries. It gave the Board of Commerce power to make exhaustive investigations and to determine a fair profit and a fair price. For a period in 1919-20 the Board exercised its powers vigorously, fixing prices of a wide variety of commodities. But this intense activity was short-lived and price-fixing came to an end before the legislation under which it was exercised was held to be unconstitutional by the Privy Council in 1922.[12]

This review of the economic regulation undertaken by the Federal Government is not exhaustive. It is designed rather to illustrate the extent to which the Government took power to direct the economy during the War. The dislocation of normal activity and the concentration of economic resources for War purposes drove it from one intervention to another. For example, the entry of the United States into the War in 1917 threatened an acute shortage in Canadian coal supplies. Accordingly, a Fuel Controller was appointed and comprehensive regulation of the coal trade was set up. The Fuel Controller allotted available supplies among the separate provinces. Provincial coal administrators distributed it among communities while local coal committees tried to allot it equitably within each community. Attempts were made to control prices by fixing margins of profit.

The failure of wages in many occupations to keep pace with rising prices was reflected in a great increase in industrial strikes in 1917 and 1918. These seriously hampered production at a time when every effort was being strained to increase production. Consequently strikes and lockouts were forbidden in 1918. Finally, the establishment of the War Trade Board in February, 1918, revealed the full logic of the War economy. The Board's sweeping powers authorized it to carry out " such supervision as may be necessary of all industrial and commercial enterprises. . . "[13] It was given power to direct the use of the economic resources of the country and to discriminate between "essential" and "less essential" industries by establishing priorities in the right of access to scarce materials among the different industries. Although many of the powers with which the Government armed itself were exercised sparingly and some were not used at all, nevertheless, as the War went on, the economy was steadily being geared to a single purpose.

This dominating purpose disappeared at the close of the War, and with a few temporary exceptions, the unusual economic controls went with it. During the post-War reconstruction period, however, the Federal Government was obliged to undertake new responsibilities. After the long concentration on the War, the return to normal economic activity was in itself a dislocation and it was complicated by the necessity of re-absorbing the citizen army into civilian life. The Government organized a system of pensions for the disabled and for the dependents of those who lost their lives in the struggle. It provided a variety of services to assist in the re-establishment of soldiers in civil life. Through the Soldier Settlement Board it sought to encourage, on a large scale, the settling of returned soldiers on the land. It organized a Dominion Employment Service to coordinate the efforts of the provincial employment exchanges. The purpose and the technique of the modern social services became familiar.

As in other countries, the great range of government action during the War had important

[12] *In re Board of Commerce Act,* [1922] 1 A.C. 191.

[13] P.C. 337, February 9, 1918.

social effects. People saw how governments could mould their lives and civil servants learned how to do it. Statistical and other information necessary for effective intervention in economic affairs was accumulated. The belief grew that governments could and should use their powers to improve social conditions. The War-time experience with the regulation and direction of enterprise was an important factor in bringing on the wide extension of government control which economic and social chaos seemed to make desirable.

War-time Increase in Federal Debt—war and railway nationalization add $3 billion to liabilities; revenue system greatly expanded to support burden

With the coming of peace, the War-time economic controls were liquidated. For a considerable period, the Dominion refrained from extensive government action for peace-time purposes. It was inhibited by the burden of debt imposed upon it by the War, demobilization and the railway débâcle. The War and demobilization had cost $1,680 million. In addition, between March 31, 1914, and March 31, 1922, the Federal Government had spent on capital account, excluding the assumption of the guaranteed railway liabilities, about $1,100 million.[14] During this period the Dominion was required to raise, over and above its ordinary current expenditures, between $2,700 million and $2,800 million. Taxation (i.e., the total of surpluses on current account) provided only $440 million of this amount.

Canada, like the other belligerent countries, met the major portion of its War costs out of borrowings and credit expansion. The imposition of a weight of taxation sufficient to pay for the whole cost of the War was too revolutionary a step to take. The Federal Government had hitherto relied almost exclusively on customs revenues and a few excise taxes. It had no system of general taxation; no machinery for directly taxing the net incomes, profits and wealth of individuals. The sudden introduction of such taxing measures on the scale required was too drastic to be either politically or economically practical. Since Canada was unable to borrow abroad to any great extent, the country as a whole paid for the War while it was being fought. The food, equipment and munitions used by the armies had to be obtained, either directly or indirectly, from current production in Canada and the producers had to be paid. There was no way of obtaining these materials from posterity. It was, therefore, imperative to increase production and it is doubtful whether that increase would have taken place under the load of taxation necessary to yield the sums required. Individuals and industry are more ready to raise output and produce a surplus (i.e., amounts in excess of current consumption) to be lent to governments at favourable and tax-free rates, than to produce surpluses which governments simply take away by taxation.

Aside from $135 million (the amount of new issues, less redemptions, floated abroad between the outbreak of War and March 31, 1922) the whole of the loan requirements, amounting to over $2,100 million, were raised in Canada. The extent to which this money came out of business profits and the incomes of the well-to-do (the increases in which arose, in considerable part, out of the effects of the inflation) is indicated by the fact that from 80 per cent to 85 per cent of the War-loan bonds were purchased by business organizations, financial institutions, and individuals with substantial incomes.

The War costs and other capitalized expenditures resulted in an increase of $2,300 million in the debt of the Dominion. The assumption of the guaranteed and other liabilities of two transcontinental railways added a further $700 million. At the outbreak of hostilities, the Canadian Northern and the Grand Trunk systems had not been completed. It had, however, become increasingly clear that these gigantic projects which the Federal and Provincial Governments had assisted liberally with subsidies and guarantees were doomed to failure. The duplication of expensive lines through unproductive territory could only be justified on the basis of a continuation of the 1900-13 boom far into the future. The 1913-14 depression was a significant warning that this would not happen. The War, which almost completely shut off immigration and capital imports, brought an end to rapid frontier expansion. The situation was further aggravated by the rise in prices and the inability to borrow in the London money market. The increased cost of construction added still more to the heavy fixed charges and the rapid rise in operating expenses enhanced the distressing deficits. Unable to borrow abroad, even on their government guaranteed securities, the companies were entirely dependent upon temporary loans and advances from the Dominion.

By 1916 the situation had become critical. The Dominion was faced with three alternatives. The first was to allow the companies to go into bank-

[14] $640 million were spent on railways and canals, $116 million on public works, $80 million on soldiers' settlement. $155 million net on advances to the United Kingdom and foreign governments, and about $110 million on miscellaneous works and advances.

ruptcy and thus, after a long legal battle and a possible deterioration of service and equipment, secure a reduction in their fixed charges. The second was to continue making advances to keep them going, and the third, to take over the roads and assume their liabilities. The Railway Inquiry Commission of 1916 recommended the last course. The bankruptcy of the companies and default on their securities, it was feared, would be ruinous to the credit of the country. Furthermore, there was danger that the freezing of the temporary loans made by financial institutions to the Canadian Northern would cause a financial panic in Canada. Thus, between 1917 and 1922, the Canadian Northern and the Grand Trunk Pacific were taken over together with the Grand Trunk and consolidated with the Canadian Government railways into one system, the Canadian National. All the debenture liabilities of the companies, including as well those on which there had been no guarantee and those guaranteed by the provinces, as well as those which the Dominion had guaranteed, were assumed by the Dominion.[15] Practically the whole of the capital expenditures on the newer roads had been financed by the sale of these fixed-interest securities. There was virtually no equity investment. The entire cost of these misguided private ventures was, therefore, loaded on the shoulders of the taxpayer with very little loss to the private investor. Thus a heavy overhead on the economy undertaken at private risk was converted into fixed charges of government.

The total direct and indirect debt of the Federal Government (accounted for almost entirely by the War and the railways) rose from half a billion in 1913 to three-and-a-half billion in 1921. During the same period expenditures on current account rose from $118 million to $354 million. Of this increase, 56 per cent was due to debt charges, 22 per cent to War pensions, and the remainder largely to the higher price and wage levels at which the ordinary services of government had to be provided. Prior to 1914 the entire current expenditures of the Dominion were devoted to supplying services to the community. About 50 per cent (including all the debt charges) were for developmental purposes, about 40 per cent for general government and defence and 10 per cent for subsidies to provinces. In 1921 almost half of the total outlay consisted of transfer expenditures which yielded no immediate services. Nearly $100 million of interest payments was on debts for which there were no productive assets, and $54 million was expended on soldiers' pensions and aftercare. These two items constituted a mere transfer of income from the taxpayers to the holders of bonds (largely tax-free War loan bonds) and to pensioners. They neither added to, nor took away anything from, the sum total of goods and services enjoyed by the country as a whole.

The new transfer expenditure was the principal factor which forced the War-time and immediate post-War widening of the Dominion's revenue base. In 1913, 78 per cent of the total receipts came from customs duties, and the remainder largely from the excise on liquors and tobacco. In 1921 the proportion from customs had fallen to less than a third; a sales tax, income taxes on corporations and persons, a business profits tax, and a miscellaneous series of taxes on financial institutions, transportation tickets, cheques, etc., had been added to the revenue system. Virtually the whole of the two-and-a-half fold increase in revenue since 1913 was obtained from the new taxes.

The $150 million of transfer expenditures were very largely a legacy of the War costs to which wage-earners and others with low incomes had been called upon to contribute more than their share. The Dominion tax system now forced wage-earners and other low income groups to carry the major part of the post-War burden. The progressive taxes (taxes on the incomes of persons and on business profits) yielded but $63 million. The remainder of the new revenue was mainly derived from sales taxes and a proportionate tax on the net incomes of corporations. The imposts on consumption not only fell heavily on the poor but were a deterrent to industry. The taxation measures adopted by the Dominion to meet the obligations inherited from the War were a revolutionary change from the simple system of pre-War days. They were, however, far from being the most equitable and efficient that could be devised.

Provincial-Municipal Finance—the War-time restraint on expenditures; sharp increases in debt and expenditures on public welfare during 1918-21

The steep increase in provincial and municipal debts and expenditures, which had been characteristic of the 1896-1913 period, had already been checked by the depression which set in shortly before the outbreak of hostilities. During the War the difficulty of borrowing abroad, the diversion of

[15] The securities guaranteed by the provinces and those on which there was no guarantee were not technically or legally assumed by the Dominion, but were assumed in fact since the Dominion paid the interest and met the maturities as they became due.

domestic investment funds into Federal channels and the search of the Dominion for additional revenues, effectively restrained the expansion of provincial and municipal activities. For several years after 1913, the latter governments marked time or fell back. As soon as hostilities ceased, however, they rapidly embarked upon new expenditures, and by 1921 the upsurge which marked the early years of the century had been resumed.

TABLE 22.—GOVERNMENT DEBTS, DIRECT AND INDIRECT —1913 AND 1921

—	1913		1921	
	Total	Per Capita	Total	Per Capita
	$mm	$	$mm	$
Dominion of Canada and Canadian National Railways	520.8	68	3,520.0	400
Provinces	285·0	37	633.3	72
Municipalities	504·6	66	803·7	91
Sub-Total	1,310.4		4,957.0	
Less Inter-governmental Debts—				
Dominion-Provincial	11.5		49.7	
Provincial-Municipal	0.9		24.5	
Total	1,298.0	170	4,882.8	556

The most striking feature of the public finance of the provinces and municipalities during this period was the rapid increase in debts immediately after the close of the War.[16] This rush of capital expenditures was in response to far-reaching technical, economic and social changes. Already in 1914 the effects on provincial-municipal finances of the motor car, the development of electricity and the long distance transmission of electric power were beginning to be felt. The heavy capital outlays demanded by these changes had been postponed by the War, but were undertaken with great vigour once hostilities ended. The increasing use of the automobile necessitated an almost complete reconstruction of urban streets and traffic facilities. The provinces began to build trunk highways and to assist in the improvement of roads generally to motor car standards. More than one-fourth of the $650 million increase in provincial-municipal debt during 1913-21 was incurred for capital expenditures on highways, streets and bridges.

Public utilities (excluding railways) accounted for some 40 per cent of the rise in total provincial-municipal liabilities. Ontario spent more than $100 million on Hydro. Provincial power commissions were established in Manitoba, New Brunswick and Nova Scotia. The three Prairie Provinces doubled their investments in telephones. Many municipalities expanded and improved their water systems. The cities of Saskatchewan, Manitoba and Ontario expended considerable sums on electric power facilities and in some cases on street railways. While the extension of public utilities added substantially to gross debts, these did not increase the burdens on the taxpayer since they were virtually all self-supporting.

The greatest increase in deadweight debt arose out of the large outlays on public buildings and miscellaneous works. The industrial expansion and urbanization stimulated by the War, together with the new responsibilities for social welfare, added considerably to the size and variety of buildings and institutions required for public purposes. These demands fell most directly on the municipalities. In the rapid extension of such facilities, together with the large expenditures on streets, sewers and waterworks, many urban centres practically rebuilt their entire capital equipment during the few years after the War. The expenditures were largely financed by 12 to 15-year debentures, a period much shorter than the life of the assets if they were fully maintained. Thus, while debts rose rapidly during 1918-21, they were scheduled to decline rapidly during the thirties when the bonds would mature.

The provinces, in addition to the demands for highways, buildings and public utilities, had to cope with the problems of the post-War depression and drought. British Columbia, Manitoba and all of the Eastern Provinces undertook housing programs financed by loans from the Dominion. Prairie agriculture, hampered by short yields, high interest rates and sharp price declines (after 1920) called for special assistance. The provincial governments attempted to relieve the situation by the provision of agricultural credit, seed grain loans, loans to farmers' co-operatives and by advances to an irrigation project in Alberta. Thirty-four million dollars were advanced for these purposes, and most of this sum soon proved to be uncollectable.

The rapid increase in the new commitments by the Western Provinces was greatly facilitated by the Dominion's assumption of $85 million of their railway guarantees. The relief from this threatening load gave scope to the provinces for response to many demands which, however, quickly substituted other heavy deadweight burdens.

[16] Between 1913 and 1921, the total per capita provincial and municipal debts rose by over 60 per cent; practically all of the increase was incurred during the three years following 1918.

TABLE 23.—GOVERNMENT EXPENDITURES, CURRENT ACCOUNT, 1913 AND 1921

(Thousands of Dollars)

	Municipal		Provincial		Dominion		Total[a]	
	1913	1921	1913	1921	1913	1921	1913	1921
Net Debt Charges	19,713	36,944	2,304	14,384	12,213	152,488	34,794	202,475
Defence	—	—	—	—	13,781	17,249	13,781	17,249
Pensions and Aftercare	—	—	—	—	94	53,688	94	53,688
Public Welfare	8,161	18,786	4,343	12,437	2,617	4,911	15,121	36,134
Education	27,700	66,280	9,600	20,850	215	924	37,515	88,057
Agriculture and Public Domain	—	—	7,434	9,174	10,985	17,596	18,403	26,722
Transportation	14,699	30,962	8,631	8,119	35,467	41,666	56,663	80,747
Subsidies to Provinces	—	—	—	—	11,280	12,212	—	—
General Expenditures— Justice, Legislation, General Government and Miscellaneous	30,125	51,911	15,069	25,689	31,642	[b]53,733	76,836	[b]131,333
TOTAL	100,398	204,883	47,381	90,653	118,294	354,467	253,207	636,405

[a] Inter-governmental payments eliminated.
[b] Includes Post Office deficit of 4,045.

Between 1913 and 1921 the current expenditures of the provinces and municipalities were each approximately doubled. In the interval, however, the price level had risen by about 70 per cent and the population by about 15 per cent. Making allowances for these factors, there were no significant changes in the total real per capita outlays. The War, which had added about 70 per cent to the real per capita expenditures of the Dominion, curbed the activities of the other levels of government. In the last three years of the period, the provincial and municipal response to the demands which had accumulated during the conflict took the form of large expenditures on capital, rather than on current account. Although net debt charges had more than doubled, the full burden of the new liabilities was not felt until later when many of the provincial advances and investments failed to be self-supporting.

While the total per capita real outlay of the provinces and municipalities on ordinary account did not increase, significant shifts occurred in its distribution among the various services. Public welfare expenditures were nearly trebled, reflecting a new attitude concerning the appropriate functions of government resulting from the impact of the War and the changing economy on social conditions. There were new services such as mothers' allowances and child welfare; there were enhanced expenditures on mental hospitals, a joint Dominion-provincial compaign against venereal disease, and, by 1921, a new and ominous item arising out of the brief but severe post-War depression, direct relief for the unemployed. Current expenditure on education was also higher. Here, as in public health, the Dominion Government had stepped in to inspire and direct new provincial schemes by the use of conditional grants. By 1921 these extended to employment service, the control of venereal disease, technical and agricultural education, and highways. Contributory payments were also being made by the Dominion to meet unemployment relief.

The expansion in these branches made relative, and in some cases absolute, reductions necessary elsewhere. The outlays on general government, justice and legislation declined in the eight years when allowance is made for the rise in wages, prices and population. Public domain, agriculture and transportation had to wait their turn until revenues again became more buoyant, as they did in most provinces early in the twenties.

TABLE 24.—GOVERNMENT REVENUES, CURRENT ACCOUNT, 1913 AND 1921

(Thousands of Dollars)

	Municipal		Provincial		Dominion		Total[a]	
	1913	1921	1913	1921	1913	1921	1913	1921
Federal Subsidies	—	—	12,851	11,865	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	104,691	105,687	104,691	105,687
Excise Duties	—	—	—	—	21,452	36,755	21,452	36,755
Manufacturers' Taxes	—	—	—	—	—	6,639	—	6,639
Sales Taxes	—	—	—	—	—	61,273	—	61,273
Corporation Taxes	—	—	3,490	11,162	—	64,008	3,490	75,170
Succession Duties	—	—	3,611	9,724	—	—	3,611	9,724
Income Taxes on Persons	38	73	119	485	—	39,821	157	40,379
Real Property Taxes	90,314	189,656	1,753	9,720	—	—	92,067	199,376
Amusement Taxes	—	—	—	3,032	—	—	—	3,032
Other Taxes	6,517	17,956	347	1,199	1,335	6,140	8,199	25,295
Sub-Total—Taxes	96,869	207,685	9,320	35,322	127,478	320,323	233,667	563,330
Motor Vehicles, Automobile licences, etc.	—	—	470	8,381	—	—	470	8,381
All Other Licences, Permits and Fees, Fines and Penalties	5,004	8,010	6,678	8,360	1,516	2,860	13,198	19,230
Public Domain	—	—	11,046	14,786	3,420	3,542	14,466	18,328
Liquor Control	—	—	2,248	7,856	—	—	2,248	7,856
Sale of Commodities and Services	305	1,155	815	747	1,513	2,358	2,633	4,260
Other	7,697	13,537	1,507	3,083	1,276	3,425	10,089	18,679
TOTAL	109,875	230,387	44,935	90,400	135,203	332,508	276,771	640,064

[a] Inter-governmental receipts eliminated.

The growth in population and the rising prices and wages which added substantially to the total money cost of government did not, however, produce an equivalent increase in the receipts from the existing revenue sources and tax rates. But new and additional revenues were readily found. Owing largely to the rise in land values in the medium-sized industrial cities of Eastern Canada, the municipalities were able to double their aggregate income from real property taxes with relative ease. In the case of the provinces, a number of the factors which were adding to their burdens also extended their sources of revenue. The growing concentration of control in industry and finance and the large profits made by individuals and corporations out of the War-time prosperity, enlarged the pools of wealth which could be tapped by corporation taxes and eventually by succession duties. Total receipts of provincial governments from these taxes rose from $7 million to $21 million during the period. As before, however, some provinces had a much greater access to these sources than others; Quebec, Ontario and British Columbia received more than three-quarters of the total. The growing motor traffic which was forcing the provinces into large expenditures on highways also opened up new sources of revenue. Motor licences, which provided a paltry sum in 1913, were yielding more than $8 million by 1921. In the Prairie Provinces, where high prices for wheat and other agricultural products inflated land values, the provincial governments levied taxes on real property which in 1921 brought in over $7 million. Quebec and British Columbia, which by the end of this period had abandoned the War-time experiment of prohibition and made the sale of liquor a government monopoly, were already collecting substantial amounts from liquor control.

The federal subsidies, which remained unchanged throughout this period, had by 1921 fallen in relative importance to only 13 per cent of total provincial revenues. New and increased government responsibilities, and technical and social changes had, by the end of the War, advanced the public finances of the provinces a long distance from the simple dependence upon licences and fees, public domain and federal subsidies.

Basic Effects of the War on the Canadian Economy—large increase in export production, and development toward financial and industrial maturity

Canada's part in the War had cost her great sacrifices in men and money. However, the very necessities and demands of the conflict had revealed, and speedily developed, a wealth of resources and capacities which, notwithstanding the enormous waste of the struggle, brought very substantial and permanent gains to the economy.[17] In 1914 the country was confronted with a painful adjustment from a prosperity dependent upon capital imports and a construction boom to a large expansion in export production. The requirements and circumstances of the War made the transition easy and rapid. The resources and men threatened with prolonged unemployment were quickly drawn into industry. The productive capacity of the country was greatly increased.

The expansion in its main features took place within the pattern laid down by the national economic policies during 1896-1913. The development of an integrated transcontinental economy was continued on the basis of a predominantly exporting region in the West and an industrialized East dependent upon the home market. In the Prairie Provinces the acreage in field crops increased 84 per cent between 1914 and 1920. During these years the population of this area rose 19 per cent compared with 9 per cent for the country as a whole. Canada's main economic contact with the outside world, its principal stimulus to expansion, grew greatly in importance. This progress of Western agriculture, however, was not achieved without the creation of problems. In the later years of the period crop yields were poor and as prices were relatively high the incentives to expand were great. Much of the increase required in equipment, land and buildings was obtained at high prices by means of borrowed money. Considerable land which was later to prove submarginal was brought under the plough. The debts were to become difficult to carry and the submarginal farms unprofitable when prices fell.

While the Prairie Provinces retained their position as the dominant exporting region, there were important developments in other areas based upon foreign markets. The War gave a considerable impetus to the production of non-ferrous metals. Improved processes were developed for the treatment of ores and their conversion into refined products. The production of pulp and paper became a major industry. (The output of pulpwood nearly doubled and the value of the exports of pulp and paper increased five-fold.) Hydro-electric power played a significant role in these developments. Capital invested in central electric stations rose 80 per cent. The natural resources of northern Ontario and Quebec and British Columbia gave rise to important new export areas which found their outlets chiefly in the United States. The simple East-West structure of the Canadian economy was becoming complicated by new economic frontiers and new external relations.

The influences of the War enhanced the position of Central Canada as the source of manufactured goods, and commercial and financial services for the exporting regions in the other parts of the country. The decline in exports from Europe and the high cost of shipping enabled Canadian manufacturers to obtain a larger share of the home market. Although the munitions orders came from overseas and were but a temporary factor, they had important long-run effects. The demands imposed and the facilities required to meet them resulted in a considerable increase in technical and mechanical efficiency. The demand for munitions produced also a much needed diversification, particularly in the iron and steel industry which had been highly specialized to supply the demands of railway building and heavy construction. This progress in efficiency and diversification was greatly facilitated (as was the case in the production of munitions) by the availability of skilled labour, tools, machinery and supplies from the United States. The Canadian manufacturing industry emerged from the War with a more dominant place in the domestic market, with an enlarged productive capacity, and with much improved and diversified facilities.

The financing of the War promoted a rapid development of financial institutions. The sale of over $2,000 million of War loan bonds stimulated the growth of security underwriting and distributing organizations. Experience was gained in the technique of mobilizing the savings of the country and Canadians generally became more familiar with the investment market and accustomed to the purchase of securities. By the end of the War the Canadian economy had acquired an extensive and quite a mature financial equipment.

The growth of manufacturing and finance accentuated the concentration of national secondary and service industries in Central Canada. Between 1911 and 1921, the urban population of Ontario and Quebec rose from 50 per cent to 57 per cent of the

[17] It is not suggested that a greater gain might not have been made had Canada not been engaged in the War.

total population of these provinces. During the same period, the population of the metropolitan areas of Montreal and Toronto grew by 38 per cent compared with 22 per cent for the country as a whole. The integration between the various parts of the transcontinental economy was increased and the dependence of the St. Lawrence-Great Lakes area upon the other regions of the country became more complete.

The War brought significant changes in Canada's external economic relations. Prior to 1914 the relations were mainly with Great Britain, which took slightly more than half the exports and was the principal source of the capital imports. In the post-War period the relative position of Great Britain, as a market for our products and as the source of both capital and merchandise imports, had declined. This change was chiefly due to the growing importance of the United States, whose share in the Canadian import and export trade rose from about 50 per cent to 60 per cent of the total. When the War made it impossible to borrow in London, Canadian industry, provinces and municipalities turned to New York. Between 1913 and 1921 the total United States investment in Canada rose from $780 million to $2,300 million while the total British investment fell slightly. Both with respect to Canadian banking and investment connections, New York surpassed London in importance.

The development of Canada's natural resources during the War had greatly increased her capacity for export production. On the other hand, the higher price level made it easier to carry the external debts contracted at pre-War prices and interest rates. While the country's economic position with respect to the outside world was improved, the economy remained highly sensitive to external fluctuations. The ebb and flow of prosperity was more than ever dependent upon the factors which affected foreign trade and capital movement.

3. The War, Political and Social Changes

Weakening of Old Political Parties—political revolt of farm and labour groups; reaction against inequalities in War sacrifices and profiteering

The War had a profoundly unsettling effect upon the whole western world which was only less marked in North America than in Europe. The War upset the habitual routine of people, replaced their normal pre-occupations with exciting distractions and altered the customary relationships between different groups within the community. Canada participated vigorously in the struggle and was exposed to most of its disturbing influences. The opposition of farmer and labour elements to conscription was symptomatic of deeper discontent. This discontent spread through the farmer and labour groups during the later days of the War and, on the cessation of hostilities in Europe, it broke into open political revolt in Ontario and the Prairie Provinces, resulting in the temporary disintegration of the federal political parties in these provinces.

The federal political parties had been based upon the common acceptance, with varying interpretations and emphasis, of certain general policies. The alliance of powerful groups of agriculture and labour in the progressive movement was based on the view that the old line parties had become organizations to further class interests prejudicial to the general public interest. It involved reliance upon class political organizations as a means of redressing the balance in their favour. The denial that the national policies of the two old parties furthered common national interests was a new political doctrine. The two federal parties had tried to unite elements from both races and all classes around particular interpretations of the national interest. The new movement assumed the contradictory and opposed character of group interests and saw federal politics as an arena where these antagonistic forces struggled for mastery.

There were a number of reasons why this explanation of the nature of the political process made such a wide appeal at the close of the War. In part, it followed from the diversification of the economy which had made such rapid progress since the beginning of the century. This development had increased the number of economic interests and had sharpened contrasts in the relative position of different groups. Differences in relative position were extended, and contrasts were emphasized, by the War. Canada's participation in it brought rewards as well as sacrifices, and both were unequally distributed among the population. Inflation held down the real income of large sections of the labouring and white-collar groups. Although agriculture had prospered where crops were good, there were large areas in the West where crops were poor, or had failed, in the later years of the War period.

There was no general or steep reduction in the standard of living during the War and the position of some labour and agricultural groups improved. However, prosperity and good fortune are always, to a great extent, relative. Psychological factors played a large part in the revolt. There was general alarm and resentment, as well as actual suffering, over the steep and continuous rise in prices. There

was widespread evidence of large profits having been reaped from War prosperity. Popular belief magnified both the size of these profits and the number of people who had shared in them. The profiteer was seized upon as the cause rather than the effect of rising prices, and fierce indignation was levelled at those who conspired to profit from human suffering and misery. The inequality of rewards and sacrifices was real and striking. Popular indignation at these inequities and misunderstanding of the causes behind them made the inequalities seem ever greater and more sinister than they really were.

The Growth of Organized Labour

Labour organization made great strides during the War. Trade union membership increased from 166,000 in 1914 to 374,000 in 1919. Labour was the most directly affected by the rise in the cost of living. The Trades and Labour Congress, after protesting against conscription, finally acquiesced in its imposition. But during 1918 the impatience of the Western wing of the labour movement with the conciliatory tactics of the Eastern section of the movement became very marked. The Western labour leaders, in particular, were indignant over the banning of radical literature by the Dominion Government, and there was considerable resentment over Canada's participation in the "capitalist intervention" in Russia. Having failed to win the Trades and Labour Congress from craft organization to industrial unions at the convention of 1918, the more radical of the Western leaders launched the One Big Union early in 1919 as an industrial union for direct action in the industrial field.

Although the One Big Union had contemplated a general strike, to begin June 1st, it was not officially connected as an organization with the sympathetic general strike which broke out in Winnipeg in May. This struggle raised passions everywhere and stirred the sympathies of labour organizations in other parts of the country. It was followed by a number of strikes elsewhere and seemed to threaten a general crisis in Canadian industry. Then the Federal Government intervened, arresting a number of the leaders. It sought to crush this kind of protest through amendments to the Immigration Act and the Criminal Code. Its action enabled the strike leaders to say that they had been defeated by the Government, and lent impressive weight to the argument that independent political action was necessary to protect the interests of labour. The incident gave impetus to the farmer-labour movement.

The Rise in the Political Power of Organized Agriculture—the election of farmers' governments in Ontario and Alberta and the rise of the Progressive Party.

Farmers' organizations also grew rapidly during the War. The United Farmers of Ontario, first organized in 1914, had secured a membership of 48,000 by 1919. Farmers' organizations on the Prairies had enrolled 75,000 members by that year. Their co-operative commercial enterprises had met with success, and the Canadian Council of Agriculture opened permanent offices in Winnipeg in 1916 from which it began to press vigorously the point of view of the farmers in national affairs. It constructed the so-called "Farmers' Platform" in 1916 and, in November, 1918, an amended form of it was published under the significant title of "The New National Policy". The political revolt was a direct challenge to the older national policies.

The manner in which the Federal Government dealt with the deputation of farmers who protested against the cancellation of exemptions from military service helped to precipitate the United Farmers of Ontario into politics. In June, 1918, a convention was held in Toronto for the purpose of ventilating grievances. Speakers demanded independent political action, and a proposal for an official journal for the movement later resulted in the purchase of the *Weekly Sun*. In October, 1918, a farmers' candidate won a provincial by-election in Manitoulin Island. A spontaneous movement for political action began among the local farmers' clubs. The leaders of the United Farmers of Ontario gave the movement direction and in the autumn of 1919, a farmers' government gained power in Ontario.

Farmers' candidates began to score successes in federal by-elections and, in January, 1920, the National Progressive Party was formed for concerted action in the federal field. Fourteen farmer candidates were elected in the Manitoba elections of that year. In 1921, the United Farmers of Alberta won an overwhelming victory in the provicial elections. In December of that year, the Union Government was defeated disastrously and sixty-five Progressives were returned to the House of Commons.

The Progressive movement, led by the farmers' organizations and strengthened by support from labour, was in the scale it assumed an entirely new phenomenon in Canadian politics although in pre-War years there had been periodic manifestations of desire for independent action. It was remarkably successful in the three years immediately following the War. Previously, movements

of protest from agricultural groups had generally tried to secure expression by supporting and exerting influence upon the Liberal Party. At this time, however, the Liberal Party was completely disorganized in the Federal field and considerably weakened in several provinces by the support given by some provincial leaders to the Union Government. But in a great measure, the prevailing discontent could not have found expression through the Liberal Party because it was directed against the political system of which the Liberal Party was an intimate part. It was a direct reflection of the corrosive social effects of the War.

Summary, 1914-21

The permanent effects of the War upon Canada have not yet been fully realized but some of them, at any rate, have become obvious. It stimulated the economy in various ways. Economic and financial inter-relationships with the United States were multiplied. The necessity of financing the War effort at home brought a quick development of financial machinery, giving the system a maturity it had hitherto lacked. The insatiable demand for supplies advanced the economy rapidly along the main lines projected by the wheat boom. With the rise of new exporting regions and industries and the expansion of wheat growing on the Prairies, the dependence on export markets was greatly deepened. Domestic industry committed itself still further to supplying the needs of the exporting groups. At the same time, the long-range effect of the War was to hamper international trade and to make the grip on foreign markets more precarious. The Canadian economy became still more vulnerable to external influences.

While the struggle lasted, the Federal Government monopolized public attention. The national effort led to a concentration on national issues and finally to bitter division on the national interest. The cleavages on this question followed cultural, class and occupational lines rather than the familiar party division or the alignment of some provinces against the Dominion. The immense authority, born of a common aim, which the Dominion Government exercised during the struggle disintegrated with the return of peace. It became very difficult to combine the group interests, which more and more found expression in Federal politics, for the support of a vigorous policy by the Dominion. Thus, in the event, the partial eclipse of the provinces was short-lived. In the twenties, the provinces were to take a more important place than ever before while the Dominion followed a mainly negative policy.

At the beginning of the period, most of the varied and exciting opportunities which came with western expansion suddenly vanished with the collapse of the boom. Economic diversification continued and people were obliged to apply themselves to highly specialized occupations. As they became less adaptable and less able to make sudden shifts in occupation, the economy lost much of the flexibility and capacity for automatic adjustment to changed conditions which had marked it in the days of the open frontier. Many of the material conditions which had already led the advanced industrial countries of Europe to make public provision for social security were emerging in Canada. The War accelerated this significant change in the economy and contributed to the decline of laissez-faire as a social philosophy. It exacted innumerable individual sacrifices for the community and thus suggested reciprocal obligations of the community toward individuals. The common folk who bore the brunt of the struggle were encouraged to expect that victory would usher in a new era. The new era did not come, but instead the inequality of individual rewards and sacrifices which marked the prosecution of the War sharpened social distinctions. This combination of circumstances stimulated a growing concern for the social welfare of those who must fight the country's battles. Recalling the War-time activity of governments, many were led to hope that governments could organize for social welfare as they had organized for War. The War hastened considerably the acceptance of the philosophy of the social service state in Canada.

The whole burden of the War expenditures fell on the Dominion at a time when it also had to pay the full consequences of the rash railway policies launched during the wheat boom. In seven years, the public debt of the Dominion increased sevenfold. The Dominion was reluctant to undertake new responsibilities, and this paralyzing debt became the financial counterpart of the political weakness which fell upon the Dominion. On the other hand, the War had been a damper on expenditures by provincial governments. After its conclusion, the provinces began without hesitation to make large expenditures to meet accumulated demands. They at once increased their expenditures on social welfare and, although they secured some federal financial assistance through conditional grants, the events of the first two or three years after the War indicated that it would be the provinces, and not the Dominion, which would meet the growing demand for social services.

Chapter V

THE POST WAR PROSPERITY 1921-30

Impact of Economic and Social Changes on Federal Relations—decline in unifying influences of national policies and growing diversity of regional interests

In the twenties, the world made a substantial, though temporary and superficial, recovery from the disruption caused by the War. In Canada, the era of reconstruction led to new and impressive expansion. The economic integration based on wheat reached a new peak of productivity which tended to obscure, for the time being, the more significant features of the expansion. The age of steel and steam within which Canadian economic development had hitherto taken place had to make way for the age of alloys, hydro-electric power and the internal combustion engine. The new techniques, the development of which had been forced by the War, opened up vast new Canadian resources for development and heavy investments were made for their effective exploitation. The impact of these developments brought rapid changes in the pattern of the Canadian economy. The national integration (achieved through wheat), which tied the country together by East-West bonds of trade and opportunity was weakened as Central Canada and British Columbia felt the direct and competing tug of export demand on their regional resources. New economic frontiers, the exploitation of which was of primary interest to Ontario and Quebec, developed on the Pre-Cambrian Shield,—where water power, base metals and pulp and paper came into their own,—and began to usurp the place of the old national frontier in the West. In the successful development of these new frontiers, the importance of a national economic integration for some regions declined and the material basis which had bolstered political unity in the past was measurably weakened.

In the past, the Dominion had been able to prosecute with vigour certain national policies which promoted national integration because of the common interest of all regions in the result. As these national policies lost some of their unifying power, the common agreement necessary for resolute political action by the Dominion became more difficult to secure. Still more important, with the opening of the West finally and fully accomplished, it seemed that many of the national economic policies had been carried to completion. No obvious and pressing challenge to action presented itself in the federal sphere in this period. To many it seemed that the time had come when the Federal Government might rest from its arduous labours and muse over how it had justified the faith of the Fathers. For other reasons, the Dominion was much disposed to rest. The War had strained the federal political system and set various groups at odds over the national policies. The national debt had been increased several-fold. In seeking to reduce its old obligations and to avoid new ones, the Dominion yielded the initiative to the provinces.

By contrast, the provinces, which had suffered enforced restrictions on their activities during the War, were not unwilling to undertake leadership on their own account. The natural resources which the new techniques opened up for exploitation were under their control and this gave the provincial governments an enhanced importance in the eyes of private enterprise.

Several factors combined to give a new political importance to the provinces. Highway construction and developmental projects on the provincial frontiers began to take the place which railway construction and national projects of development had occupied in the past. In the jobs and contracts which were thus at the disposal of the provincial governments, there were substantial increments of political power. Moreover, in the twenties, the social and political implications of the change from a simple rural and village economy to a highly specialized, predominantly industrial economy could no longer be ignored. The mischances which befall individuals in such a society could no longer be cushioned by the family and voluntary charity. The constitution threw the responsibility for public welfare on the provinces (and municipalities) and within the limits of their resources they tried to meet it. These activities brought the provincial governments into a closer relationship with the people. In their intimate contact with the movements and tendencies of the time, the provincial governments added greatly to their economic and

social importance and thus to their political power and prestige. Those which could carry their obligations manifested a new independence of the Federal Government and those which could not became more importunate as they focused on the Federal Government regional protest against the operation of the national policies. In the endeavour to meet their growing obligations or to take full advantage of rising economic opportunities, provincial demands of various kinds were made on the Dominion, and the Federal Government, unable to deflect these demands by a vigorous policy of its own, made important concessions to the provinces. The rise of regionalism gave an altered direction to Dominion-provincial relations.

Regionalism reflected differences in interests and opportunities which had become quite pronounced in different parts of Canada. The various regions had always differed in resources and geographical advantages. These promoted economic specialization and made for disparities in the fortunes of separate areas. The national policies, which had both hastened and deepened specialization, played continuously on the regional disparities, sometimes counteracting, but often exaggerating, them. With so large a dependence on exports, fluctuations and shifts in international trade capriciously moulded regional fortunes. A long lag in recovery from the post-War slump revealed serious weakness in the Maritimes which was met, in some measure, by an increase in federal subsidies. The decline in export values in the early twenties, and again at the end of the period, made clear the overwhelming dependence of the whole structure of Prairie government finance on wheat. On the other hand, Central Canada forged ahead rapidly without interruption throughout the period. At the same time, the increasing need and demand for certain minimum public services bore little relation to the capacity of the governments in a region to supply them. The great disparities in the strength of the regional economies were temporarily obscured by the surge of prosperity which carried provincial and municipal expenditures and obligations to new heights in the later twenties. At the same time, the very factors which brought prosperity made the economy more vulnerable than ever before to economic fluctuations. With the coming of depression at the end of the period, these new conditions were fully exposed to view and some of their implications became inescapable. Federal action became necessary to maintain a tolerable equilibrium between the regions in the federation.

1. Prosperity and the Changing Structure of the Economy

World Influences—short post-War depression; reconstruction and revival of international trade and investment bring renewed expansion to Canada.

At the end of the Great War Canada found herself in an economic world which was utterly disrupted. International trade was hampered by a maze of national restrictions and controls. The international exchanges were in a state of desperate confusion and instability. Important industries, particularly shipping, coal mining, iron and steel, and heavy engineering had expanded beyond peacetime requirements. Large masses of Europe's population suffered from grave shortages of foodstuffs and raw materials. The staggering load of internal and external debts, and the heavy expenditures on social services and rehabilitation, forced a continuance of unbalanced budgets which, in many cases, resulted in uncontrolled inflation. The intricate mechanism of money and exchange which was the basis of the world's economic life seemed broken almost beyond repair. The passions of the conflict, deep underlying grievances, and revolutionary tendencies enhanced the difficulties of reconstruction.

In 1920 these far-reaching dislocations brought about a collapse of the short post-War boom. The liquidation of the world-wide inflation of credit had an immediate effect upon Canada through the steep decline in export prices and demand.

Table 25.—Indices of Prices and Exports[a]

—	All Wholesale Prices	Export Prices	Farm Products	Wheat Prices	Manufactured Goods Prices	Cost of Living	Value of Exports	Volume of Exports
1920.....	100	109	100	100	100	100	100	100
1921.....	71	74	64	66	74	88	64	87
1922.....	62	60	55	49	64	81	71	118
1923.....	63	59	51	43	66	81	80	136

[a] Dominion Bureau of Statistics price indices.

The movement of prices had drastic effects upon the Canadian economy, not so much because of the extent of the fall (although it was one of the most severe ever experienced following an almost equally abrupt rise) but because of the great disparities which developed. Selling prices (wholesale prices) fell more rapidly than costs (cost of living, wages,

freight rates, interest rates, etc.). Agricultural prices, particularly that of wheat, fell far out of line with the prices of manufactured goods and the cost of living. During the rapid expansion of the War years, Prairie farmers had incurred heavy debts, purchased much machinery, equipment and land at the high War prices.[1] When the value of wheat fell by more than 50 per cent, it became virtually impossible to carry these overhead costs and commitments. The situation was further aggravated by the United States tariff increases of 1921 and 1922 which sharply restricted the substantial exports of livestock and livestock products to the United States.

The decline in the purchasing power of Western agriculture, combined with rigid costs, brought a sharp curtailment of demand for manufactures from Central Canada. Considerable unemployment emerged in industrial centres. In Nova Scotia, where the high level of activity was heavily dependent upon War requirements, the contraction was particularly severe. At the bottom of the slump the national real income had fallen 14 per cent. During 1921-23 the far-reaching effects of unfavourable foreign influences on the Canadian economy were fully revealed.[2]

The post-War depression, however, was short-lived. By 1923, notwithstanding the many serious dislocations inherited from the War which had not been overcome, world economic activity had resumed its upward course. Between 1920 and 1926 there was a general and concerted effort to restore the conditions of international exchange as they had existed prior to 1914. Currencies were stabilized on gold, many of the more onerous restrictions on international trade were removed, and international lending was resumed. The reconstruction of devastated areas was quickly accomplished and financially weak countries were bolstered up with international loans. These efforts achieved only a superficial restoration of pre-War trade conditions without bringing a solution to fundamental problems, but they permitted the forces of economic expansion to become effective. The requirements of war had greatly increased productive capacities, particularly in new countries, and stimulated the development of industrial techniques. With the re-establishment of orderly international relations, the new facilities brought an increase in material welfare. By 1925, world production of primary commodities had risen 17 per cent over the 1913 level and the volume of world trade had risen 5 per cent. Canada was quickly affected by the rising tempo of world economic activity.

TABLE 26.—PRICE CHANGES

1913 = 100

—	1922	1926	Per cent Change 1926 from 1922	1929	Per cent Change 1929 from 1926
Canadian Selling Prices—			%		%
All Export Prices	152	156	+ 3	149	− 4
Wheat	140	170	+ 21	152	− 10
Newsprint	190	176	− 8	149	− 15
Lumber and Timber	160	148	− 7	154	+ 4
Non-ferrous metals	99	102	+ 3	101	− 1
Canadian Costs—					
All Import Prices	138	137	−	129	− 6
Manufactured Goods Prices	155	154	−	144	− 7
Iron and Steel Products	152	145	− 4	136	− 6
Railway Freight Rates	152	148	− 3	146	− 1
Tramp Shipping Freights [a]	130	117	− 10	97	− 18
Interest Rates [b]	125	111	− 11	113	+ 2

[a] Economist Index.

[b] Yield of Province of Ontario Bonds.

After 1923 the prices of the leading Canadian exports became increasingly favourable in relation to costs.[3] These circumstances, together with improved wheat yields, brought a rise of 43 per cent in the value of Canadian exports between 1922 and 1926.

The rising export values which provided the basis for the growing prosperity in Canada in the twenties were due to a number of far-reaching changes which were affecting the Canadian economy during this period. The shortage of foodstuffs in Europe, the application of new techniques to virgin resources for whose products there was a rising world demand, the low cost of ocean transportation resulting from the excess capacity in shipping, and the opening of the Panama Canal, launched a new era of expansion in Canada.

[1] For example, the settlement of returned soldiers on the land was undertaken at a time of peak prices.

[2] The extent of the depression in Canada is indicated by the 14 per cent drop (1920 to 1921) in the national real income, the 11 per cent drop in the physical volume of business, the 13 per cent drop in the volume of exports, the 30 per cent drop in the gross value of agricultural production and the increase from 4·9 per cent to 12·7 per cent in the percentage of trade union unemployment. The foreign exchange value of the Canadian dollar during 1921-24 when it moved at an appreciable discount below United States funds and at a premium over sterling—added to the burden of debt charges paid in the United States and put increased pressure on exporters to the United Kingdom, although giving some advantage to domestic producers, and exporters competing with United States interests.

[3] By 1926 the average of the prices of all exports of wheat, newsprint, and lumber were 56, 70, 76 and 48 per cent respectively, above those of 1913, compared with increases of 37, 54, 45 and 48 per cent respectively, in the prices of all imports, manufactures, iron and steel and railway freight rates.

Continued Rise in Wheat Exports—increasing dependence of Prairie agriculture on temporary markets

Canadian wheat production had expanded rapidly in response to the new European demands created by the War. These demands were not immediately abated with the renewal of peace. The devastation and dislocations caused by the struggle, agrarian reforms and the Russian revolution prevented the immediate attainment of the pre-War levels of production. The overseas exporting countries, particularly Canada, were called upon to supply the deficiency.

TABLE 27.—WORLD (EXCLUDING CHINA) WHEAT PRODUCTION
(Millions of Bushels)

Annual Averages	25 European Countries	Russia	Canada	United States	Argentina and Australia	All Other	Total
1909–13...	1,355	757	112	682	238	665	3,809
1922–25...	1,197	521	383	779	335	614	3,829
1926–29...	1,340	797	440	861	397	649	4,484

For a few years after the War, European tariff restrictions against the imports of wheat were considerably lower than they were prior to 1914. This liberal policy arising out of the condition of scarcity, and the foreign exchange made available by United States lending, created an expanding market for wheat, of which Canada obtained a growing share, at profitable prices. During 1922-26 Canada supplied 38 per cent of the world's wheat exports, compared with 12 per cent during 1909-14.

TABLE 28.—NET EXPORTS AND IMPORTS OF WHEAT AND FLOUR
(Millions of Bushels)

Averages Crop Years	NET EXPORTS				NET IMPORTS	
	World Total	Six European Exporters	Russia	Canada	France, Italy and Germany	Other European Importers
1909-10 to 1913-14.....	686	114	164	86	164	381
1922-23 to 1925-26.....	759	34	9	286	186	394
1926-27 to 1929-30.....	810	44	14	304	203	441

After 1925 however, the favourable circumstances in the export wheat market began to disappear; 1925 was the first year in which European production exceeded the pre-War levels. It was the year in which Germany regained her freedom to impose customs duties and thereupon re-enacted high tariffs on foodstuffs. In 1925 Italy began the "battle of the grain" and Austria and Czechoslovakia imposed sliding scale duties on imported wheat. Between 1925 and 1929 the increasing European protection against foodstuffs arising out of the desire for self-sufficiency and the growing industrialism of new countries, together with the continued expansion of European production which was, at least in part, a "spontaneous recovery" from the effects of the War, greatly weakened the international wheat situation. For some time, however, the effects of these basic changes were obscured. The failure of Russia to re-enter the export market on any substantial scale, large United States loans to Europe, speculative holding of surplus stocks, and the high rate of business activity enabled overseas exporters to ship an increasing volume of wheat until the end of the boom in 1929. Wheat prices remained at profitable levels although they had been sagging since 1925. With the satisfactory prices and high yields of 1926-28 Prairie agriculture was prosperous and resumed a rapid rate of expansion. Thus there were serious underlying weaknesses at a time when Canada became even more deeply committed to the profitable sale of wheat which continued to make up nearly a third of her total exports.

The Investment Boom—large investment in transportation facilities and development of northern resources; effects of hydro-electric power, improved mining techniques and the gasoline engine

While the expanding market for wheat was a major factor in the economic growth of Canada during the twenties, other forces were perhaps more important. Prior to 1914 the basic elements of industrialism were steam power, coal and iron. The War and post-War development of hydro-electric power, the gasoline engine, and the use of new industrial metals shifted the balance of industrial advantage. These technological changes were of immense significance to Canada, first, because they brought into economical exploitation large virgin resources, and second, because they decreased the handicaps suffered under the old techniques. The resources of British Columbia and of the northern areas of Ontario and Quebec became the basis of large staple industries. In addition to the agricultural frontier on the prairies, Canada acquired new frontiers on the Pre-Cam-

brian Shield.[4] The exports of pulp and paper and non-ferrous metals rose to 30 per cent of total exports in 1929 compared with 19 per cent in 1920.

The expansionary effect of these rapidly growing industries, however, was due not so much to the new export incomes which they created, as to the heavy capital expenditures which accompanied their development.

TABLE 29.—CAPITAL INVESTMENT

(Millions of Dollars)

—	Total to 1920	Total to 1930	Net New Investment during 1929-30
Primary Industry—			
Agriculture—buildings, implements and livestock	2,884[b]	2,817	− 67
Mining [a]	560[b]	887	+ 327
Pulp and Paper	348	704	+ 356
Sawmills	200	181	− 19
Fishing [c]	50	64	+ 14
Sub-Total	4,042	4,653	+ 611
Manufacturing	2,188	2,868	+ 680
Central Electric Stations	448	1,138	+ 690
Transportation and Communication—			
Steam Railways [d]	2,650[e]	3,330	+ 680
Canals and River Improvements [f]	168[b]	280	+ 112
Harbours, Harbour Improvements, Docks and Terminals—Dominion Expenditure and Guarantees [f]	107	231	+ 124
Electric Railways	170	224	+ 54
Telephones	145	319	+ 174
Highways—Provinces [f]	118[b]	387	+ 269
Highways and Streets—Municipalities [f]	240[b]	350	+ 110
Sub-Total	3,598	5,121	+1,523
Public Buildings and Municipal Works [f]	522[b]	801	+ 279
GRAND TOTAL	10,798	14,581	+3,783
Residential Building [g]	—	—	+1,062

[a] Excludes ore reserves or other unmined material. Includes non-ferrous metal smelting and refining.
[b] 1921.
[c] Includes fish canning and curing establishments.
[d] Capital invested in Road and Equipment.
[e] Estimated.
[f] Public Accounts Inquiry, Royal Commission on Dominion-Provincial Relations.
[g] Construction Contracts awarded, MacLean Building Reports, Ltd.

In Canada, as elsewhere, the rising economic activity of the twenties was dependent upon a high rate of investment. The expansion of Western agriculture and the growth of the new staple industries on the new northern frontiers required a heavy expenditure on fixed equipment. The northward extension of wheat growing on the prairies required a substantial increase in costly transportation facilities. New branch lines were built, main lines improved and canals and harbours enlarged in accordance with the national policy of all-Canadian transportation. In response to the new demands, the requirements of national policies and the optimistic outlook on the future, the railways engaged in unwise competition and invested during 1920-29 nearly $700 million in road and equipment and a further $150 million in hotels, telegraphs, and steamships. During the same period the Dominion spent $236 million on waterways and harbours.

The improved technical facilities and new demands, which opened up the natural wealth of the Pre-Cambrian Shield, involved a particularly heavy investment of capital. The large fixed equipment represented by central electric stations, pulp and paper factories, smelters and metal refineries was the major factor in the exploitation of these resources. The expenditure of nearly $1,400 million on the construction of such equipment during the decade of the twenties contributed greatly to the prosperity of the period.

Another technical innovation which called forth large capital outlays in the post-War years was the automobile. It gave rise to new automobile factories, petroleum refineries, service stations, repair shops and, what was most important, a greatly extended and improved system of highways and streets. The last two items alone involved an investment of some $380 million during this period.

The heavy capital expenditures involved in the development of the primary industries and transportation stimulated investment in manufacturing, in distribution facilities, in community equipment and housing. During 1920-30 the amount invested in all forms of capital goods reached a total of at least $6 billion. Near the end of the period, the amount of construction far exceeded the levels attained at the height of the pre-War boom. The amount of foreign capital which came in during the twenties was, however, much smaller than that which was associated with the expansion prior to 1914. Between 1920 and 1924 capital imports were substantial but in 1925, 1927, and 1928 there were net capital exports. During the decade net long-term capital imports were between $800 million and $900 million, of which about two-thirds came from the United States. The investment boom of the twenties was very largely financed out of Canadian savings.

[4] Between 1920 and 1929, the developed water power in Canada rose from 2.5 million horse power to 5.7 million horse power, the gross value of production of pulp and paper (which was closely dependent upon electric power) rose from $151 million (1921) to $244 million and the value of production of non-ferrous metals rose from $76 million to $154 million.

The increase in export incomes resulting from the expansion of Western agriculture and the exploitation of hitherto unused resources by the application of improved techniques, together with the heavy capital expenditures which arose out of these developments, brought rising prosperity and a very substantial improvement in material welfare. The average per capita real income rose by fully one-third during the decade.

TABLE 30.—INDICES OF CANADIAN ECONOMIC PROGRESS, 1920-29

1920 = 100

—	Population [a]	Real National Income [b]	Physical Volume of Business [c]	Volume of Exports [d]	Efficiency of Production in Manufacturing [e]	Index of Real Wages [f]
1920.....	100	100	100	100	100	100
1922.....	104	100	106	118	130	115
1926.....	110	125	133	161	142	114
1928-29 average	116	148	162	172	146	120

[a] Estimates of the population by the Dominion Bureau of Statistics.
[b] Computed from estimates of the national income by the Dominion Bureau of Statistics for 1920-26 and from the Bank of Nova Scotia estimates for 1926-29. The index of the real national income was computed by dividing the indices of the national money income by the Dominion Bureau of Statistics index of the cost of living.
[c] Dominion Bureau of Statistics Index.
[d] Index of the value of exports divided by the Dominion Bureau of Statistics index of export prices.
[e] Volume of manufacturing production per employee, *Canada Year Book*, 1934-35, p. 490.
[f] Dominion Department of Labour index of wages divided by the Dominion Bureau of Statistics index of cost of living.

Maritime Provinces—foreign markets and technological changes unfavourable; prolonged post-War depression and federal assistance.

The external forces and the technological changes of the 1920's, while favourable to Canada as a whole, were adverse to the Maritime Provinces. During the thirty years prior to the War, the decline of the old techniques destroyed the prosperity based upon the sailing ship and the sea, while the rise of coal, iron and the railway brought a growing dependence upon the continental interior. The development of the coal and steel industries which resulted from the "wheat boom" and the national policies provided alternatives to the declining occupations. In this manner, parts of the Maritimes had participated in the great expansion of 1896-1913. The post-War expansion, however, which was not so much associated with railway building as with the rise of new sources of power (electricity and oil) and the newer industrial metals, passed them by. As in the former period, the long-term trend in their foreign markets was downward. Under such circumstances, the depression which set in during 1921 continued in these provinces long after it had been overcome and expansion renewed elsewhere. In this decade they made virtually no progress.

TABLE 31.—THE ECONOMIC PROGRESS OF THE MARITIMES, 1920-29

Indices 1920=100

—	Population		Capital Invested [a]		Net Value of Production [b]		Average per Capita Income [c]	
	Maritimes	Canada	Maritimes	Canada	Maritimes	Canada	Maritimes	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	101	110	96	116	74	99	269	432
1929...	102	117	109	138	74	107	313	470

[a] Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
[b] Net value of "goods" production.
[c] Calculated from the estimates of national income prepared by the Research Staff of the Commission.

Between 1920 and 1929 the populations of Nova Scotia and Prince Edward Island remained practically stationary while that of New Brunswick rose but slightly, compared with an increase of 18 per cent in the two Central Provinces. During the decade, there was a considerable emigration to the United States. In none of the years of the period 1921-29 did the net value of (goods) production in the Maritimes approach the high figure of 1920, whereas, in each of the other provinces of the Dominion, it had been surpassed by 1928.

The War had been a powerful stimulus to the Maritime economy. The cessation of the exports of dried fish from Europe, the heavy demand for West Indian sugar, and the growth of the fresh fish trade to Central Canada greatly extended the markets of the fishing industry. The demand of the munitions industries for iron and steel, the shipbuilding orders of the Canadian and Allied Governments, the high prices for lumber and the decline of the competition of other regions with local agriculture, brought prosperity to the other principal industries. The Halifax disaster brought about a temporary building boom. At the beginning of the post-War depression, all these favourable influences disappeared suddenly and simultaneously.

During the War Brazil, Porto Rico, Cuba, and the British West Indies drew virtually the whole of their supplies of dried fish from Nova Scotia and Newfoundland. The high meat prices and the

Government transportation subventions brought a large increase in the sales of fresh fish to Quebec and Ontario. The removal (as a War measure, in 1918) of the shipping restrictions which had partially nullified, for the Maritimes, the Underwood Tariff of 1913 permitting free entry of fresh and frozen fish into the United States, gave the fishing industry profitable access to the markets of that country. These advantageous circumstances, however, quickly disappeared. After 1920 production of dried cod from competing sources increased rapidly. European importing countries became self-sufficient behind tariff walls. Government subsidies and technological improvements enabled Norway and Iceland to increase production greatly and to capture important markets. The steep decline in sugar prices sharply curtailed the purchasing power of the principal consumers in the West Indies. Finally, dried cod was being gradually replaced as an article of diet by other foodstuffs. The fresh fish trade grew but slowly. In 1919 the subventions for the transportation of fresh fish to Central Canada were stopped. In 1921 the United States Government withdrew the War-time privileges accorded to Canadian fishing vessels and reimposed tariffs (which were increased in 1922) on fresh and frozen fish. Confronted with such an array of obstacles, Nova Scotia's highly important fishing industry declined.

TABLE 32.—INDICES OF PRICES AND THE VALUE OF FISH PRODUCTION IN THE MARITIMES

—	Prices of Dry Shore Codfish at Halifax	All Wholesale Prices	Cost of Living	Total Value of Fish Production Maritime Provinces
1913	100	100	100	100
1918-20 average	192	217	168	152
1921-25 "	118	159	155	112
1926-29 "	109	152	152	130

The resources hitherto employed in the fisheries sought opportunities elsewhere. Some owners of fishing vessels turned to rum-running for a new source of income. Despite the fact that alternative employments were few and the problems of readjustment difficult, the number of persons employed in the fishing industry in Nova Scotia declined from 26,000 in 1919 to 20,000 in 1929.

Lumbering, the principal industry in New Brunswick and an important one in Nova Scotia, faced growing difficulties during the twenties. The depression in British building restricted the sales in the English market while the opening of the Panama Canal and low ocean freight rates intensified competition in the Eastern United States and Canada. During 1921-29 the production of lumber in New Brunswick never recovered the pre-War peak of 1911 and remained far below the levels of the War years. The average annual output in Nova Scotia in this decade was less than half of what it had been during 1908-14. The depressed conditions in lumbering encouraged the utilization of forest resources for the manufacture of pulp and paper. Between 1920 and 1929 the production of pulpwood in the two Provinces was doubled. The manufacture of paper, however, was slow in getting under way. It began in 1923 in New Brunswick but not until 1930 in Nova Scotia. Despite this development the total net value of forestry production in the Maritimes for 1929 was less than for 1922.

The rise of the Nova Scotia iron and steel industry was directly linked with the railway expansion of the "wheat boom." In the post-War period the demand shifted from steel rails and other heavy forms to lighter materials and structural steels such as are used in motor-car manufacturing and building construction. The Nova Scotia industry was at a disadvantage compared with that in Central Canada which was closer to the market, had access to larger supplies of scrap metal, and whose competitive position was improved by the disproportionate War-time increases in freight rates from the Maritimes. In Ontario the production of pig-iron in 1928 and 1929 far exceeded the levels reached during 1916-20, but in Nova Scotia output remained considerably below both the immediate pre-War and War-time peaks. In 1913 Nova Scotia produced 43 per cent of Canada's pig-iron; in 1929 this ratio had fallen to 29 per cent.

Coal mining suffered at once as a result of the difficulties of the iron and steel industry.[5] Furthermore, the market in Central Canada, which took one-third of the output in 1913, was lost during the War. The recovery of this market was assisted by the 20 per cent reduction in Maritime freight rates in 1927 and the federal subventions for the transportation of coal to Ontario and Quebec which were established in 1928. With these rail freight reductions and the low water rates which prevailed during this period, the Central Canadian market was more than recovered by 1929. A further attempt was made to help the industry by the

[5] The consumption of coal in Nova Scotia (used very largely by the iron and steel industry) was 2.9 million tons in 1913 and 1920 but less than 2.2 million tons in 1929.

offer of federal bonuses (started in 1927) to gas and coking plants using Canadian coal. These various methods of assistance were in part responsible for a considerable revival of production but in 1929 the total was still 12 per cent below the output of 1913.

The relative, and in some cases absolute, decline in Maritime manufacturing which began at the end of the last century continued during the twenties. The disadvantages of these Provinces arising out of their isolation from the large markets of Central Canada and the West, their distance from the industrial centre of gravity of the continent situated in the Mid-Western United States, the unfavourable circumstances affecting the local exporting industries, and the adverse railway freight rate situation (as compared with pre-War levels) prevented them from sharing in the expansion of manufacturing which took place in Ontario and Quebec. They were unable to benefit from the new developments which stimulated the remarkable growth in the lighter industries, in the production of packaged consumers' goods, new textiles and durable consumers' goods such as motor cars, radios, electrical appliances and other household furnishings. However, some progress was made in the processing of local natural products and also of certain imported raw materials such as sugar and oil. A number of specialty manufacturers held their position, the most important being specialty textiles, shoes and candies. Nevertheless, manufacturing in the Maritimes declined during this period. In 1929 employment in manufacturing was greater than in 1920 in every province except Nova Scotia and New Brunswick. For Canada as a whole, manufacturing employment during the decade rose 14 per cent but fell 6 per cent in the Maritime Provinces.

With the disappearance of War-time demands and prices, the competition of other regions with Maritime agriculture was intensified. Consequently, the acreage devoted to field crops decreased steadily (there was a small rise in Prince Edward Island) during the twenties. However, there was some progress in the production of dairy products for the sheltered local market and of agricultural export specialties,[6] although circumstances were not favourable. The Nova Scotia apple industry encountered increasing difficulties with diseases and pests and was confronted in the depressed English market with stiffer competition from British Columbia and a better graded product from the United States. During the War and the immediate post-War years, valuable markets for potatoes were built up in the United States and Cuba. The Underwood Tariff of 1913 had admitted potatoes free subject to a small countervailing duty. In 1921 the United States potato tariffs were reimposed and, in 1922, raised to 30 cents per bushel. The Cuban market became less attractive as the sugar prosperity disappeared, and in 1927 tariffs were sharply raised. However, the great progress in the development of seed potatoes in Prince Edward Island and New Brunswick kept them in the market despite tariffs and depressed conditions. In the face of the many unfavourable factors, Maritime agriculture failed to prosper. The number of gainfully occupied engaged in the industry fell slightly during the decade.

The difficulties of the widespread economic readjustment which the Maritime region had to undergo during the twenties were enhanced, particularly during the first half of the period, by the effects of the national policies. The isolation of these Provinces from the markets of the rest of Canada was intensified by the War and immediate post-War rise in freight rates. In the Maritimes these rates had risen approximately 20 per cent more than in Ontario and Quebec. The policy of protective tariffs, although it was not altered in any important respect, bore with increasing weight upon the depressed and marginal exporting industries. However, during the latter part of the decade, the national policies were somewhat modified so as to apply more favourably to this region. In 1927, following upon the recommendation of the Duncan Commission, the railway rates within the territory east of Levis and Diamond Junction, and on traffic moving westward out of this territory were reduced 20 per cent. Thus the pre-War relationship between Central Canadian and Maritime rates was restored.

The changes in the tariff and trade regulations did not significantly alter the general level of protection, but a number of new provisions were adopted which were calculated to increase traffic through Maritime ports. In 1923 a reduction of 10 per cent on preferential rates in excess of 15 per cent was granted where imports were shipped direct to Canadian ports. In 1926 the application of all preferential rates was made dependent upon direct shipment to Canadian ports. A new Canada-West Indies Trade Agreement providing for reciprocal preferences became effective in 1927. Although the effects of this Agreement upon exports were disappointing to the Maritimes, the establishment of a

[6] These were silver foxes in Prince Edward Island, potatoes in Prince Edward Island and New Brunswick, and apples in Nova Scotia.

regular and adequate steamship service to the West Indies subsidized by the Dominion yielded distinct benefits. These modifications in the national transportation and tariff policies, the Dominion subventions to coal, large Dominion expenditures (by direct outlays and guarantees) for the improvement of the harbours of Halifax and Saint John, together with the sharp rise in economic activity in Canada and elsewhere, brought a substantial recovery to this region during the latter part of the decade. Between 1926 and 1929 the total income of these Provinces rose slightly more rapidly than that of the rest of the country. By 1929 some of the unfavourable circumstances had disappeared and the major readjustments required by the remainder had been accomplished. At the end of the period, the Maritimes had less of the feverish activity of a boom than other parts of Canada but they were better prepared to withstand the shock of the depression.

Prairie Provinces—renewed expansion following recovery of wheat prices; diversification in Manitoba and increasing dependence upon wheat in Saskatchewan and Alberta.

The collapse of wheat prices after 1920 coupled with rigid costs placed a severe strain on Western agriculture.

Table 33.—The Price of Wheat as Percentages of Certain Farm Costs, 1913-25

—	Manufactured Goods	Farm Cost of Living	Wages of Farm Help
1913	100	100	100
1920	118	135	104
1921	104	111	86
1922	90	93	76
1923	77	81	69
1924	92	97	80
1925	116	126	103

The decline in agricultural income was intensified by poor yields, and by the fall in cattle prices to which the United States' tariffs of 1921 and 1922 contributed. The difficulties of the Western farmer found expression in the agitation for the re-establishment of the Wheat Board, in the growth of farmers' organizations, and finally in the establishment of the voluntary wheat pools during 1923 and 1924. The Provincial Governments of Manitoba and Saskatchewan endeavoured to relieve the situation by making available agricultural credit at lower than open market rates, and Alberta by heavy expenditures for irrigation and advances for seed grain, purchase of live stock, etc.

During the depressed farm conditions of 1921-24 economic expansion in the Prairie Provinces virtually ceased. In this period, however, certain important readjustments were made. A reduction of 7·5 cents per bushel in the freight rates on wheat (Regina to Fort William) was effected in 1922 by the re-establishment of the Crow's Nest Pass Agreement rates on grain and flour moving eastward from the Prairies. A large area of the wheat-growing region was enabled to benefit from the opening of the Panama Canal by the decreases of 20 per cent in 1922 and a further 10 per cent in 1923 on grain rates from Prairie points to the Pacific coast. Between 1920 and 1924 the total cost of shipping wheat from Regina to Liverpool fell from 67 cents per bushel to 33 cents per bushel. In this period also, the national policy of protective tariffs was somewhat modified in the direction of reducing the costs of the primary producer. The War-time increases in the tariff (7½ per cent on the general and intermediate rates and 5 per cent on the preferential rates) were abolished in 1919 and 1920. In 1919, 1920 and 1924 substantial reductions were made in the duties on farm machinery. In 1924 the general and intermediate rates on tillage implements stood at 7½ per cent compared with 17½ per cent and 20 per cent under the 1907 tariff. The reduction of costs and the sharp recovery of wheat and livestock prices in 1924 and 1925 opened a period of renewed expansion on the Prairies.

Table 34.—The Price of Wheat as Percentages of Certain Farm Costs, 1913-29

—	Manufactured Goods	Farm Cost of Living	Wages of Farm Help
	1913 = 100	1913 = 100	1913 = 100
1924	92	97	80
1925	116	126	103
1926	110	117	92
1927	113	116	89
1928	104	107	81
1929	106	109	81

The relation of wheat prices to costs was favourable and yields were abnormally high. The Prairies once more became a magnet for immigrants. In the occupied areas, the improved acreage was rapidly increased and another wave of frontier settlement spread out over northern Alberta and Saskatchewan. The northward thrust of settlement was encouraged by the development of new early maturing wheats and the extensive provision of railway facilities. Between 1926 and 1931 the

occupied acreage rose 24 per cent and the improved acreage 21 per cent. Agricultural prosperity and frontier expansion in Western Canada operating within the framework of the national policies once more set in motion the stimuli to the national economy made familiar by the "wheat boom". The construction of railroads, the building of towns and villages, the growth of cities and the provision of community facilities brought a high rate of economic activity to the region and gave a strong impetus to production in Eastern Canada and British Columbia. Between 1920 and 1930 railway mileage in the three Provinces increased by nearly 2,900 miles,[7] compared with virtually no increase in the remainder of Canada. By the end of 1930 practically every part of the area of the Prairies on which agriculture is feasible had been brought within 10 miles of the railway. Also, in response to regional pressure, a new transportation outlet (the Hudson Bay Railway) for grain was constructed at a cost to the Dominion of $50 million.

At the close of this decade the settlement of the Western plains was virtually completed, and the area was provided with the capital equipment and the community facilities adequate for a high standard of living. The great national purposes, which led to the acquisition of the Northwest and to the attempt to build a transcontinental economy on the basis of the settlement and the economic growth of this empire, were now fulfilled.

While the same broad forces played upon each of the provinces during the twenties, there were significant differences in the nature of their development.

TABLE 35.—AGRICULTURAL EXPANSION IN EACH OF THE PRAIRIE PROVINCES, 1920-30

Indices 1920 = 100

—	Manitoba		Saskatchewan		Alberta	
	1920	1930	1920	1930	1920	1930
Population	100	116	100	124	100	125
Area of Occupied land	100	104	100	126	100	133
Area of Improved land	100	106	100	134	100	151
Percentage of Area of Field Crops in Wheat	45	36	58	63	49	57
Percentage of Urban to Total Population	43	45	29	32	38	38
Percentage of Number Engaged in Agriculture to Total Gainfully Occupied	40	35	65	60	53	51

[7] Of this mileage, 1,600 miles were added in Saskatchewan, 1,200 in Alberta and 100 in Manitoba.

In Alberta and Saskatchewan, where land for frontier settlement was still available, expansion was much more rapid than in Manitoba. The economic growth in the latter Province was largely confined to the westward extension of the hydro-electric, pulp and paper and mining development of Ontario and Quebec. The application of new and improved techniques to the resources of the Pre-Cambrian Shield which crosses northern Manitoba was a replica, on a much smaller scale, of what was taking place in Central Canada. Between 1920 and 1930 the developed water power in Manitoba increased from 85,000 horse power to 312,000 horse power. The manufacture of paper began in 1927. Gold output became significant in 1928. The production of zinc-copper-silver in the Flin Flon area did not get under way until 1930, but the capital expenditures in connection therewith were made during the latter part of the twenties.

These and other developments introduced an important element of diversity into Manitoba's economy. The net value of production of mining, forestry and electric power rose from 5 per cent of the total in 1920 to 12 per cent in 1930. Considerable progress was also made in manufacturing and the contribution of this industry to the total net value of (goods) production increased substantially. The dependence upon agriculture declined and agriculture itself became less dependent upon wheat. The percentage of the area of field crops in wheat was 45 per cent in 1920 but only 36 per cent in 1930. The farm income from feed grains, live stock and dairy products now surpassed that obtained from wheat. Manitoba had attained an important degree of maturity and had come a long way from the pioneer stage with its overwhelming reliance upon a single staple. However, the metropolitan area of Winnipeg continued to be heavily dependent upon the wheat economy of Saskatchewan and Alberta.

The economic growth of Saskatchewan and Alberta during this decade was due almost entirely to the expansion in the production of wheat. There was some development of oil in Alberta but the coal mining industry lagged. The importance of this one grain was partly the result of the relatively greater rise in the price of wheat than in the prices of live stock and dairy products, and partly, the result of the rapid mechanization of farms which displaced a large acreage of feed grains.[8]

[8] The increase from 38,000 to 82,000 in the number of tractors, from 73,000 to 155,000 in the number of motor cars and trucks and from practically nil to 9,000 in the number of combines on farms in the Prairie Provinces between 1921 and 1931 shows how the horse was being displaced by mechanical power.

During 1926-28, 81 and 70 per cent respectively of the total cash receipts from the sale of farm products in Saskatchewan and Alberta came from wheat, compared with but 43 per cent in Manitoba. In the same period, the two former Provinces derived 62 and 50 per cent of their total incomes *directly* from agriculture while in Manitoba this percentage was only 25 per cent. The prosperity of Saskatchewan and Alberta was almost completely dependent upon the production of a single commodity of which the volume of production was determined by the extreme variations of a hazardous climate and which was sold on a precarious foreign market.

British Columbia—rapid economic expansion; the stimulus from the opening of the Panama Canal, low ocean freight rates and rising demand for non-ferrous metals

The rate of economic growth of British Columbia during this decade exceeded that of any other Canadian region or province.

TABLE 36.—THE ECONOMIC PROGRESS OF BRITISH COLUMBIA, 1920-29

INDICES 1920=100

	Population		Capital Invested[a]		Net Value of Production[b]		Per Capita Income[c]	
	British Columbia	Canada	British Columbia	Canada	British Columbia	Canada	British Columbia	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	120	110	133	116	126	99	554	432
1929...	130	117	165	138	145	107	600	470

[a] Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
[b] Net value of "goods" production.
[c] Calculated from the estimates of national income prepared by the Research Staff of the Commission.

The development of the new sources of power (electricity and oil), the rise of the new industrial metals, and the growing demand for wood-pulp and paper suddenly brought a large heritage of natural resources within the range of economic exploitation. The opening of the Panama Canal and the abnormally low ocean freight rates immensely improved British Columbia's general competitive position, and in particular opened large international markets to her bulky exports. The improved techniques and greatly cheapened transportation produced a rate of economic expansion in British Columbia during the twenties equalled by few other areas in the world.

The problems of treating the complex non-ferrous metal ores of the Kootenay district were largely solved during the War, but production in any great volume was not attained until the post-War period. Between 1920 and 1929 the output of copper more than doubled, of silver increased by three times, of zinc by over four times, and of lead by nearly ten times. In 1930 British Columbia produced nearly one-tenth of the total world production of lead and zinc. The production of pulp and paper which had begun before the War expanded considerably during the twenties in response to demand from the United States Pacific Coast and the Orient. Both mining and pulp and paper were closely related to the availability of hydro-electric power. In 1929 the developed water power per capita in British Columbia was higher than that in any other province.

The opening of the Panama Canal was an event of first importance to the leading industry on the Pacific coast, lumbering. Prior to the War, the high cost of transportation practically excluded British Columbia lumber from foreign markets and less than one-fifth of the output was exported. The industry was almost entirely dependent upon sales in the Prairie Provinces. In 1920 (when the Panama Canal was not yet in full operation) the cost of shipment of Pacific coast lumber to New York was $27.30 per thousand feet. In 1929 this cost had fallen to $10.11.[9] During this period, the output of British Columbia lumber was almost doubled. About one-half of this increased production was exported, over 60 per cent of the exports going to the United States where lumber had had free entry since 1913. The significance of the Panama Canal to British Columbia and also to the lumber industry in Eastern Canada is further illustrated by the fact that nearly one-fourth of all the sales of lumber in 1929 from the former Province consisted of water-borne shipments to the Atlantic Coast of North America.

One of the most important results of the favourable circumstances which promoted a rapid expansion of the primary industries was the capital expenditures to which they gave rise. Much of the exceptional prosperity during this period had its basis in the large investment of capital. During the twenties the volume of new construction in British Columbia was nearly equal to that in the three Prairie Provinces combined.

Prior to the War British Columbia was closely dependent upon the transcontinental Canadian economy and the national transportation and

[9] The great importance of this decrease in transportation charges and its revolutionary effects upon the industry are indicated by the comparison of this decline with the total mill cost of British Columbia lumber of $22.50 per thousand feet in 1929.

developmental policies.[10] During the post-War period this dependence upon Canadian markets and policies declined. In the twenties the primary industries expanded almost entirely in relation to foreign demands. About half the lumber, virtually the whole of the mineral production, nearly all of the fish, and a large part of the apples were sold in external markets. British Columbia continued to be deeply affected by the national policies but she derived her income mainly from sales abroad.

The modifications in the national transportation policy during the twenties, however, enabled her to benefit extensively from her improved position. The Panama Canal greatly extended the potential hinterland of the port of Vancouver. The freight rate reductions on grain in 1922, 1923, 1925 and 1927 increased the area in Alberta and Saskatchewan from which wheat could be profitably shipped via the Pacific coast. The large program of railway branch lines speeded up the development of areas tributary to Vancouver.[11] Of considerable importance, also, was the regional equalization of railway freight rates that took place during the post-War decade.[12] These rate reductions, together with the opening of the Panama Canal and the rapid growth of the local exporting industries, were particularly helpful to Vancouver which grew to become the third largest metropolitan centre in Canada. During 1921-31 its population rose by over 50 per cent. The capital expenditures involved in this expansion contributed greatly to prosperity of the Pacific coast region.

Central Provinces—technological changes and favourable foreign markets induce rapid development of forest and mineral resources; increasing industrial and financial concentration in this region.

The economic developments of this decade were highly favourable to Ontario and Quebec. Agricultural expansion in the Prairie Provinces and the rapid growth of the exporting industries in British Columbia within the framework of the national policies widened the opportunities of the commercial and industrial enterprises concentrated in the central region. The progress of this area along the old lines was greatly supplemented by the rise of their own new frontiers and by new direct external contacts which resulted from the application of improved techniques to the resources of the Pre-Cambrian Shield. Ontario and Quebec recovered quickly from the 1921 depression and thereafter enjoyed increasing prosperity until 1930.

TABLE 37.—THE ECONOMIC PROGRESS OF ONTARIO AND QUEBEC, 1920-29

Indices 1920=100

—	Population		Capital Invested[a]		Net Value of Production[b]		Per Capita Income[c]	
	Ontario and Quebec	Canada	Ontario and Quebec	Canada	Ontario and Quebec	Canada	Ontario and Quebec	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	112	110	118	116	95	99	430	432
1929...	118	117	142	138	115	107	485	470

[a] Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
[b] Net value of "goods" production.
[c] Calculated from the estimates of national income prepared by the Research Staff of the Commission.

Prior to the War the economic growth of the Central Provinces was closely dependent upon their ability to sell manufactured goods and services to the exporting industries in the other regions of Canada, principally the Prairie West. The foreign outlets for their products had become of minor importance. It is true that the attack on the Pre-Cambrian Shield began before 1914, but large-scale developments had to await the new conditions of the War and post-War periods. The lack of coal and iron ore was a serious obstacle in the age of steam and steel. The development of electricity, the gasoline engine and the rising demand for the newer industrial metals now greatly shifted the position of comparative advantage. These changes, together with the improvements in metallurgical processes and the increasing consumption of pulp and paper brought the resources of northern Ontario and Quebec into their own.

Aside from the existence of mineral deposits and unexploited timber resources, the central factor in the new developments was the availability of hydro-electric power.[13] Because of the interior location of Canada's mineral resources and the low grade

[10] Seventy per cent of her total production of lumber was sold in the booming markets of the Prairie Provinces.

[11] Between 1921-22 and 1928-29 the shipments of wheat to Europe through this port rose from 4.5 million bushels to 61.1 million bushels.

[12] This may be illustrated by a comparison of Fifth Class Maximum Standard Mileage Rates for a distance of 400 miles. (This class and distance is selected merely to show the direction of the changes.) In 1914, Pacific rates were 77 per cent; Saskatchewan-Alberta rates 49 per cent; and Manitoba rates 37 per cent above those of Ontario and Quebec (Central rates). In 1923, Pacific rates were only 32 per cent and Prairie rates 14 per cent above the Central rates. In 1922, the Pacific Standard rates were lowered from a level 1½ times the Prairie rates to a level 1¼ times the Prairie rates.

[13] Its great importance is indicated by the fact that approximately 100 horse power of energy are required per ton of daily output of newsprint.

character of many of the ores, economic exploitation would not be practical were it not for the availability of cheap electric power with which to mine and to treat the ores on the spot. Between 1920 and 1930 the developed water power in Ontario and Quebec rose from 2·0 million horse power to 4·8 million horse power. In the latter year, nearly 30 per cent of this power was utilized by the pulp and paper industry and 12 to 15 per cent by the mining and metallurgical industries. The production of hydro-electric energy in the two Central Provinces during 1930 was equivalent to approximately 13 million tons of coal, or about twice the total annual average output of coal in Nova Scotia.

The abundance of cheap hydro-electric power and the favourable markets for wood-pulp, paper and non-ferrous metals were the bases of the rapid expansion in the exploitation of the resources of the northern areas. During this decade, the production of non-ferrous metals in the Central Provinces was almost doubled and the output of paper increased by nearly three times.[14] The manufacturing of pulp and paper became Canada's leading manufacturing industry and newsprint paper the second largest Canadian export. In 1930 the net value of production in mining, forestry and electric power made up one-fifth of the total net value of (goods) production in the two Provinces. The population of the northern districts, which was almost entirely dependent upon these activities, became about equal to the population of the whole of Alberta.

The development of large exporting industries and the growth of the new communities dependent upon them constituted a significant change in economic structure of the Central Provinces. It lessened relatively the importance of the other regions as markets for the manufactures and services of Ontario and Quebec. Secondly, it was the basis of heavy capital expenditures which added greatly to the prosperity of these Provinces during this period. The rapidly expanding industries which obtained their income from abroad and spent it mainly in the protected domestic market more than took up the slack which resulted from the declining rate of growth (as compared with the pre-War period) of Prairie agriculture. The investment of over one billion dollars in central electric stations, pulp and paper factories and mines during this decade provided ample outlets for activities formerly dependent upon the railway and building boom of Western Canada.

[14] Gold output rose from $12 million to $39 million and other non-ferrous metals from $43 million to $59 million.

Another technical innovation, which during the twenties brought a large increase in the income of the central region from external sources, was the automobile. This new means of transportation, besides giving rise to important new manufacturing and service industries and to heavy capital expenditures on roads and streets, was the principal factor in the rapidly growing tourist trade from the United States. In 1929, the expenditures of foreign tourists in Canada reached an estimated total of $300 million, a figure greater than the value of any Canadian commodity export. At least 80 per cent of this amount was spent in Ontario and Quebec.

While the basis of the economy of Central Canada was substantially broadened by the new developments, manufacturing continued to be the predominant activity. This industry received a considerable stimulus from the new export incomes of both this region and Western Canada which the national policy of protective tariffs effectively directed to the domestic producer. Furthermore, Ontario and Quebec were able to benefit most from the technological changes of this decade. The production of automobiles, electrical apparatus and supplies, the new textiles, radios, etc., was confined almost entirely to these Provinces. The concentration of manufacturing in Central Canada became even more complete.

TABLE 38.—PERCENTAGES OF THE NET VALUE OF MANUFACTURES IN ONTARIO AND QUEBEC TO THE CANADIAN TOTALS, 1910-29

—	Ontario and Quebec		Ontario	Quebec
	1910	1929	1929	1929
Total Textiles	90	91	47	44
Cotton Textiles	80	94	21	73
Wool Textiles	90	94	80	14
Total Iron and Steel Products	81	86	66	20
Primary Iron and Steel	—	75	56	19
Agricultural Implements	98	98	95	3
Railway Rolling Stock	67	76	23	53
Automobiles	100	96	96	—
Electrical Apparatus and Supplies	99	99	77	22
Chemicals and Chemical Products	75	90	59	31
Rubber Products	91	99	74	25
Boots and Shoes	94	97	36	61
Furniture	97	95	76	18
Glass Products	73	92	53	39
Tobacco	95	100	11	89
Pulp and Paper	93	86	32	54
Flour Mills	82	58	45	13
Saw-Mills	61	38	22	16
Non-ferrous Metal Smelting and Refining	—	78	54	23
Fruit and Vegetable Canning	98	75	65	10
Meat Products	68	66	51	15
Liquors	83	81	40	41
Petroleum Refining	83	54	41	14
Central Electric Stations	63	75	42	33
Total of Listed Manufactures	80	84	51	33
All Manufactures	80	82	51	31

In Quebec, although considerable progress was made in the processing of natural products with the use of hydro-electric power, manufacturing continued to be mainly dependent upon consumers' goods (clothing, cotton textiles, boots and shoes, tobacco) requiring a large supply of labour. Ontario, on the other hand, specialized in the rapidly growing, mechanized industries producing durable consumers' goods and machinery. For a number of these (automobiles, farm implements and rubber products) important export markets were built up on the basis of Empire preferences, and carefully contrived loopholes in the tariff which gave access to United States techniques, tools and parts.

The concentration of manufacturing in Central Canada was accompanied by an increasing concentration of the financial, commercial and distributive services in this region. The fact that Canada was able to finance a very large part of the post-War capital investment out of its own savings opened large opportunities to Canadian financial institutions. The increasing amount of capital required was gathered together from all over Canada and allocated to investment purposes throughout the entire country by the financial houses and promoters of Montreal and Toronto. Furthermore, the business boom of 1926-29 brought another wave of corporate mergers and consolidations which centralized industrial control and the location of head offices even more completely in the metropolitan centres of Ontario and Quebec. This industrial and financial centralization had the effect of canalizing a very large part of the profits, net incomes, and wealth which arise from activity over the whole country, into the central region. In 1930, 80 per cent of the total net corporate incomes subject to the Dominion corporation income tax and 77 per cent of all individual incomes over $10,000 subject to Dominion income tax appeared in the two Central Provinces. In the same year, four-fifths of all the dividends from stocks and interest from bonds paid to Canadian individuals were received by residents of Ontario and Quebec.

The growing concentration of manufacturing, commerce, and finance was reflected in the increasing urbanization and the rapid expansion of the metropolitan centres of the two Provinces. Between 1921 and 1931 the urban population rose from 58 per cent to 61 per cent of the total in Ontario, and from 56 per cent to 63 per cent in Quebec. In Ontario agriculture declined relatively, and in Quebec, absolutely. In the latter Province, where the migration from the country to the city was greatest, the number of farms and the area of improved land actually decreased, despite the encouragement to colonization given by the Provincial Government and the Church. Quebec became the most highly urbanized Province in Canada. The principal urban areas, Montreal and Toronto, which became the metropolitan centres for the entire Canadian economy, increased their populations during this decade by 39 per cent and 33 per cent respectively, compared with an increase of 18 per cent in the population of the country as a whole. Montreal continued to be heavily dependent upon the transcontinental economy established by the "wheat boom" and the national policies, while Toronto became more closely associated with the rapidly expanding industries on the Pre-Cambrian Shield.

Significant Changes in the Canadian Economy—rise of new export areas and decline in unifying influence of wheat; growing vulnerability to external fluctuations, increasing rigidities and specialization

The impact of technological changes and favourable foreign markets upon Canada's undeveloped resources brought, during the twenties, another period of expansion and prosperity. However, the uneven distribution of the resources which were now drawn into exploitation meant that the various Canadian regions were affected very differently. The old economy of the Maritimes languished; good prices (during the latter half of this period) and agricultural settlement of the remaining fringes, produced a considerable, though not a spectacular, expansion in the Prairies; Central Canada and British Columbia surged ahead on the basis of new and rapidly growing export industries. The nature of the development during this decade modified the simple unity of the Canadian economy which rested on the rising production and exportation of wheat. Prior to the War, there was one predominant export area, the Prairie West, whose growth under the influences of the national policies built an integrated transcontinental economy. During the twenties new important export staples emerged in two other regions. Formerly the economy had but a single important external contact; now there were several. One promoted East-West cohesion; the others emphasized North-South relationships and regional economic independence.

The national economic policies were continued without any significant changes. The specific applications of these policies during the twenties

were largely attempts to round out the great national purposes for which they had been adopted. The settlement of the Northwest was virtually completed. The national transportation system was consolidated and improved, and branch lines were added to encourage the development of the few remaining areas of unsettled agricultural land. No new and sweeping projects were launched and the Dominion rested on its past accomplishments. However, with the unequal levels of prosperity, the restrictive effects of the national policies upon certain regions became more burdensome and much dissatisfaction arose. No new policies were initiated but a number of modifications were made in the old for purposes of regional appeasement. The alterations in the tariff consisted mainly of a much greater use of certain devices (drawbacks, special exemptions, etc.) which tended to reduce the costs of the primary producer without changing the general level of protection. The influences of the Dominion on the freight rate structure, as exercised by statute, orders in council and the decisions of the Board of Railway Commissioners, tended to decrease regional differentials. The rising incomes of the twenties made it relatively easy to get acceptance of the adjustments necessary to maintain a national economic integration.

While the circumstances of this decade were favourable to Canadian expansion they also increased the vulnerability of the economy. The new export staples were the result of highly specialized activities. Large areas of the country, where it was either wheat or nothing, pulp and paper or nothing, lumber or nothing, non-ferrous metals or nothing, became dependent upon the exportation of a single or a very few commodities. If the foreign prices of these fell to unprofitable levels there would be no alternative occupations. On the Pre-Cambrian Shield and over a large part of the Prairies self-sufficiency even for a bare subsistence would be impossible. The principal products consisted of raw materials, and hence the probability of extreme fluctuations was great. In a number of cases Canada supplied a large portion of the total world requirements;[15] therefore, she would feel the full impact of any external disturbances. The weak condition of the international market for the two most important commodities, wheat and newsprint, rendered the situation all the more precarious.

The growth of the specialized exporting industries was associated with very heavy expenditures on fixed equipment. The economy became geared to a high rate of capital investment; if anything curtailed this investment, a serious problem of unemployment would arise. Furthermore, these investments in capital facilities were financed in a way which greatly increased the overheads and rigidities. The large fixed interest costs of private industry and governments would make adjustments to falling export incomes extremely difficult. Added to these rigidities were those which arise out of increasing urbanization, industrial concentration and centralized financial control.

The rapidly increasing per capita real income during the twenties both in Canada and in other countries was another source of instability. The more income rises above the requirements of bare subsistence, the more unstable the economic system tends to become. The expenditures on personal services, comforts and luxuries may be sharply reduced or postponed when confidence is shaken by economic disturbances. The higher the proportion of income devoted to non-essentials and the more specialized the productive resources, the more severe and far-reaching is the contraction which results from the curtailment of such expenditures. In 1929 the average per capita real income in Canada was one-third higher than in 1920. In the latter year large sums were spent on automobiles, radios, household appliances, new houses, and on other semi-luxuries or postponable items. A sharp reduction in these outlays would create difficult problems of unemployment and readjustment.

At the end of this decade Canada had attained a high level of prosperity, but the increased specialization, the great dependence upon raw material exports, large overheads, stubborn rigidities, and a relatively high per capita income greatly enhanced her vulnerability to economic fluctuations. These fluctuations might arise from external developments, or from geographical and climatic factors in Canada, or as a result of errors of policy in the past and the limitations inherent in the Canadian economic and political structure, but all had the common characteristic of being, at the time, uncontrollable by any means then at the command of Canadian governments.

2. Public Finance

The circumstances of the twenties included no spectacular changes such as those which brought the steep increases in government liabilities and expenditures associated with the wheat boom, the War and the immediate post-War conditions. Between 1920 and 1930 the total per capita debts and expenditures of all governments rose but 13 per

[15] In 1930 Canada supplied 32 per cent of the world's exports of wheat, 63 per cent of the world's exports of newsprint, 14 per cent of the world's exports of copper, 12 per cent of the world's exports of lead and zinc, and 31 per cent of the world's exports of aluminium.

cent and 9 per cent respectively. During this period, however, there were significant changes in government responsibilities and in the problems of Canadian public finance. Public welfare and highways occasioned the most rapidly increasing costs of government and these fell almost entirely on the provinces and the municipalities. Thus, while the total per capita debts and expenditures of the Dominion declined, those of the municipalities rose by over 20 per cent and those of the provinces by over 70 per cent. The provinces, which were required to finance and administer the major portion of the expanding public functions, acquired a greatly enhanced importance in the governmental structure of the country.

Cautious Policy of the Dominion—consolidation of past developmental projects and avoidance of responsibility for expanding services

Throughout the period, the Dominion resisted the temptation to embark on new services and until the later years of the decade it enforced a rigid economy on all controllable expenditures. By 1926 a substantial reduction in current outlay had been effected. However, in the boom prevailing after 1926, expenditures rose slowly through diffused expansion of existing services. The only significant new obligation assumed was the assistance to provincial old age pension schemes. The cost of general government rose substantially and there were moderate additions to the expenditures on agriculture and national defence. Offsetting these, the position in 1930 showed a substantial decline in current payments on transportation, due mainly to the reduced deficits of the national railways. Although the outstanding debt of the Dominion rose by $250 million, owing to the expenditures necessary to round out the national railway properties and for the extension of branches in the Prairie Provinces, the total interest charges decreased, partly because of refunding at lower rates of interest and partly because of the improved earning position of the Canadian National Railways.

In its endeavour to ease the burden of taxation, the Dominion at least managed to simplify the tax structure by reduction and elimination of special War taxes. Rising imports and rising prosperity boosted customs and excise receipts thus making it possible to cut the special levies. The business profits tax and some minor taxes were entirely abandoned. By successive cuts the sales tax was whittled down from 6 to 1 per cent. The corporation income tax was lowered. The income tax on persons was cut and the exemptions repeatedly raised. In this way the indirect taxes of customs and excise resumed some of their former importance in the federal revenue system. In 1913 virtually all Dominion revenues came from these two sources. In 1921, with the yield of special taxes at its peak, customs and excise produced little more than one-third of total revenues. In 1930 they produced a sum approaching two-thirds of total revenues. In its whole fiscal policy the Dominion was labouring for a return to pre-War "normalcy"—although it was no longer dealing with the pre-War economy.

TABLE 39.—GOVERNMENT EXPENDITURES, CURRENT ACCOUNT, 1921 AND 1930

(Thousands of Dollars)

	Municipal		Provincial		Dominion		Total[a]	
	1921	1930	1921	1930	1921	1930	1921	1930
Net Debt Charges	36,944	55,740	14,384	29,476	152,488	149,098	202,475	232,522
Defence	—	—	—	—	17,249	23,256	17,249	23,256
Pensions and Aftercare	—	—	—	—	53,688	55,341	53,688	55,341
Public Welfare	18,786	31,510	12,437	34,678	4,911	17,698	36,134	83,882
Education	66,280	84,705	20,850	33,775	924	702	88,057	119,191
Agriculture and Public Domain	—	—	9,174	21,241	17,596	23,298	26,722	44,484
Transportation	30,962	42,159	8,119	28,328	41,666	29,083	80,747	99,570
Subsidies to Provinces	—	—	—	—	12,212	19,036	—	—
General Expenditures—Justice, Legislation, General Government and Miscellaneous	51,911	71,614	25,689	35,902	[b]53,733	[c]70,332	[b]131,333	[c]177,849
TOTAL	204,883	285,728	90,653	183,400	354,467	387,844	636,405	836,095

[a] Inter-governmental payments eliminated.
[b] Includes Post Office deficit of 4,045.
[c] Includes Post Office deficit of 6,081.

Rapid Expansion of Provincial-Municipal Expenditures—provinces assume major share of cost of expanding services; public welfare and highways

Of the $200 million increase in current expenditures at all levels of government between 1921 and 1930, the Dominion accounted for only $33 million. Of the $1¼ billion increase in total outstanding debt of all governments in this period, only one-quarter billion dollars was incurred by the Dominion (including the Canadian National Railways). The reluctance of the Dominion to embark on new services or to give assistance in financing them meant that the weight of the new demands fell on the provinces and municipalities. Moreover, the demands which loomed up in the twenties were for services falling primarily, if not solely, within the constitutional powers of the latter governments. Thus there was a marked rise in both provincial and municipal debt and current expenditures. The $1 billion addition to the debt of the provinces and municipalities was largely incurred for public utilities, highways and various projects of development. The greater part of the $173 million increase in the current expenditures of provincial and municipal governments in this period was due to increased debt charges arising out of these capital investments and to increased current expenditures on public welfare and highways. The provincial and local governments had either special interests or special responsibilities in these fields.

With the virtual disappearance of the agricultural frontier, the increasing specialization of occupations, and the continued drift from the country to the city which accompanied greater industrialization, the self-sufficiency of individuals, families and communities continued to decline. The risk of individual misfortune which had formerly been carried by the individual himself, the family, or by informal community assistance and charity, was throughout this period assumed to an increasing extent by governments. At the beginning and again at the end of this decade the provinces and the Dominion, as well as the municipalities, made payments for the relief of unemployment. Through the initiative of the Dominion a provincially-administered old age pensions scheme was launched during the twenties, which involved the provinces entering the scheme in the responsibility of providing half the rapidly mounting cost. The provision of mothers' allowances was extended. A growing realization of the vital public interest in public health led to the extension of free curative and preventive services and to enlarged support of hospitals and similar institutions.

Despite the economic and social changes which manifested themselves in a pronounced manner in the twenties, Canadians adhered to the belief (quite appropriate in a simpler society) that the municipalities were the proper agencies to bear any necessary public responsibility for social welfare. Provincial governments through their assistance to welfare activities made many amendments to this doctrine. But the Dominion was barred from accepting any responsibility except, as it proved, when a public welfare problem overwhelmed both the municipalities and the province. Thus the greater part of the growing burden of these services fell upon the latter governments.

Between 1921 and 1930 current public welfare expenditures of all governments rose 130 per cent. The Dominion share of this increase was confined almost entirely to the financial support given to provincial old age pensions schemes and relief grants which reappeared again in 1930. Three-fourths of the added outlays were borne by the provinces and municipalities. However, at the end of this period public welfare still absorbed less than one-fifth of the provincial-municipal revenues. Buoyant economic conditions throughout the greater part of the twenties kept public welfare needs at a minimum and masked the fundamental social and economic changes which had taken place. There was no obvious indication of the potential magnitude of the financial responsibilities which the provinces and municipalities had assumed.

Traditionally, roads and highways were a provincial and local responsibility in Canada. In a smaller, more compact and more evenly settled country, the coming of the motor vehicle would have precipitated a national highway program. Because great distances and natural obstacles divided the areas of settlement in Canada, the motor vehicle was at first used only for inter-urban and short-haul purposes. The demand for national highways was long in emerging and the Dominion, struggling with its railway problem, limited its contribution to highway development in this period to temporary grants-in-aid to the provinces between 1919 and 1928. The reconstruction of local roads into a network of highways capable of carrying the ever-growing motor traffic fell to the lot of the provinces and the municipalities. The automobile promoted the growth of suburban areas around the larger cities, thus extending the areas which required

new community equipment and various municipal services. The rapid increase in the use of the automobile throughout the twenties made suburban development, as well as highway construction and maintenance, an ever heavier burden.

Current outlay on highways by all Canadian provinces and municipalities was nearly doubled between 1921 and 1930. Capital investments in streets, highways, bridges, and ferries rose from $364 million to $743 million. Owing to the enforced restrictions on capital expenditures during the War, relatively little progress was made with highway construction until the twenties. In most provinces ambitious programs were launched early in the period. But the increasing speed, weight and number of vehicles rapidly pushed even new roads into obsolescence. Main highways were soon costing as much as railway lines of high standard. The demand throughout the period was much higher than the capacity of most provinces and municipalities to provide them.

The British North America Act secured the provinces in control of education. During this period a number of factors contrived to increase the cost of this function. An equalitarian philosophy demanded the widest possible extension and constant improvement of educational opportunities. The growing complexity of the economy required an increasing variety of skills which could only be supplied by a more specialized and more expensive educational system. Moreover, the predominance of younger people among the immigrants who flowed into the country after 1900 altered the normal age distribution of the population and brought a sharply increasing number of children to the schools in the twenties. The possibility of relieving the consequent growing burden on the provinces and municipalities through substantial federal aid to education was limited if not entirely excluded by latent racial and religious issues. The Dominion made special temporary grants-in-aid for agricultural instruction and technical education which were of some assistance in this period, but these were not renewed when they expired. In the result virtually the entire burden of mounting educational costs remained with the provinces and the municipalities.

During this period the provinces were more than ever concerned with promoting the development of their natural resources. Added attention was given to the protection of valuable forest reserves against fire and insects. Conservation of fish and game was linked with active promotion of the tourist trade. Roads were built and geological surveys undertaken to encourage mining development. Various expenditures were made to encourage immigration and settlement in new areas. Consequently, between 1921 and 1930, the current outlay on public domain and agriculture rose from $9 million to $21 million.

The public utility projects pushed forward by the provinces during this period were closely allied to their interests in public domain and development. Ontario invested heavily in hydro and Saskatchewan, Manitoba, New Brunswick, and Nova Scotia made capital outlays on provincial electric-power systems. The Prairie Provinces extended and improved their telephone facilities. The total provincial capital investment in public utilities (excluding railways) rose from $172 million in 1921 to $330 million in 1930. These investments, however, were almost entirely self-supporting and while they added substantially to total governmental debts, they did not add (with the exception of telephones in Alberta) materially to the burden of debt charges.

The Doubling of Provincial Revenues—appearance of new sources; liquor control, gasoline taxes and motor vehicle licences.

While the Dominion pursued a negative policy, avoiding new obligations and striving to cut down existing ones, the provinces and municipalities, taken as a whole, extended some of their old activities in a marked fashion and assumed new responsibilities of an undefined scope. Greatly increased revenues were necessary to meet some $173 million increase in annual expenditures of 1930 over 1921. Municipalities provided for their added costs by increased returns from existing sources of revenue, while the provinces relied partly on the increased yield of old sources and partly on new sources which they discovered.

The tax on real property remained the mainstay of municipal revenue. In 1930, as in 1921, it provided over 80 per cent of the municipal receipts. The post-War slump which drove down property values caused many municipalities acute embarrassment in the early years of the decade. Moreover, the increased use of the automobile had a serious and adverse effect upon the tax base in many of the larger urban centres. At the very time when it was compelling large expenditures on the improvement of streets, it promoted the rapid growth of new residential districts outside the boundaries of the city. This flight to suburban areas had a depressing effect upon property values within the central municipality. However, the economic expansion of the twenties, combined with

TABLE 40.—GOVERNMENT REVENUES, CURRENT ACCOUNT, 1921 AND 1930

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total[a]	
	1921	1930	1921	1930	1921	1930	1921	1930
Federal Subsidies	—	—	11,865	14,276	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	105,687	131,209	105,687	131,209
Excise Duties	—	—	—	—	36,755	57,747	36,755	57,747
Manufacturers' Taxes	—	—	—	—	6,639	10,474	6,639	10,474
Sales Taxes	—	—	—	—	61,273	20,147	61,273	20,147
Corporation Taxes	—	—	11,162	18,520	64,008	45,961	75,170	64,481
Succession Duties	—	—	9,724	20,780	—	—	9,724	20,780
Income Taxes on Persons	73	3,896	485	2,122	39,821	26,624	40,379	32,642
Gasoline Taxes	—	—	—	23,487	—	—	—	23,487
Real Property Taxes	189,656	257,118	9,720	6,708	—	—	199,376	263,826
Amusement Taxes	—	—	3,032	4,525	—	—	3,032	4,525
Other Taxes	17,956	21,760	1,199	1,534	6,140	4,531	25,295	27,825
Sub-Total—Taxes	207,685	282,774	35,322	77,676	320,323	296,693	563,330	657,143
Motor Vehicles, Automobile Licences, etc.	—	[b]	8,381	19,907	—	—	8,381	19,907
All Other Licences, Permits and Fees, Fines and Penalties	8,010	11,294	8,360	10,024	2,860	3,703	19,230	25,021
Public Domain	—	—	14,786	17,037	3,542	2,297	18,328	19,334
Liquor Control	—	—	7,856	30,985	—	—	7,856	30,985
Sale of Commodities and Services	1,155	3,171	747	1,159	2,358	2,745	4,260	7,075
Other	13,537	19,916	3,083	2,759	3,425	8,605	18,679	29,457
TOTAL	230,387	317,155	90,400	173,823	332,508	314,043	640,064	788,922

[a] Inter-governmental receipts eliminated.
[b] Particulars not available; included with All Other Licences, Permits and Fees.

rapid urban growth, came as an important counteracting influence, supporting property values and strengthening the tax base for the time being. While all other sources of municipal revenue yielded $20 million more in 1930 than in 1921, the tax on real property yielded an additional $67 million. Anything which had an adverse effect on real estate values would undermine Canadian municipal finance.

The capacity of the provinces to discharge the responsibilities they had assumed in the fields of public welfare, education, highways and public domain rested very largely on the remarkable increase in revenues derived from liquor control, motor vehicle licences and gasoline taxes. Total provincial revenues in 1930 were nearly double those of 1921; more than two-thirds of this increase was derived from the additional yield of these three items. Provincial revenues from motor vehicle licences and liquor control rose by $11 million and $23 million respectively during the period. Most important, the provincial gasoline taxes, which had not yet been imposed in 1921, were yielding more than $23 million in 1930. Total provincial revenues from corporation taxes, and succession duties doubled during the period but the total increase derived from these sources was considerably less than the increase provided by the profits of liquor control alone. The provinces, which had once been expected to rely almost entirely on revenues from public domain and the unconditional federal subsidies, drew only 10 and 8 per cent respectively of their revenues from these sources in 1930.

The Vulnerability of the Provincial Fiscal Systems—the reluctance of the Dominion to relieve or assist the provinces and to compensate for the great regional disparities

During the twenties the provinces, relying on new-found sources of revenue, increased their expenditures very considerably. Much of their current outlay was on fixed charges and, therefore, uncontrollable. The responsibility for public welfare was laden with contingent commitments, and their weight would vary inversely with the ability to carry them. During a depression their

total expenditures were certain to rise. Their revenues were, to a considerable extent, drawn from semi-luxury "consumption taxes" which were equally certain to give a decreased yield when there was a contraction in incomes. The economy would reveal, under the stress of economic reverses, great disparities in the width and adequacy of the different revenue bases and in the vulnerability of fiscal systems. The combination of falling revenues and rising costs would affect the different regions very unequally. The inherent weaknesses in the position of the Maritimes were clearly exposed early in the decade. The whole structure of provincial and municipal government on the Prairies was highly vulnerable, and almost entirely dependent on the maintenance of the favourable export position of a single commodity: wheat. British Columbia too was heavily dependent upon favourable prices for its exports. Relatively speaking, the Central Provinces, with a more diversified economy and with their access to the national pools of wealth, had much the most secure and advantageous position.[16] In times of prosperity these disparities, even though disturbing, were still tolerable. In any period of sharp distress some kind of equalizing action by the Federal Government would be inevitable.

During the twenties the Dominion Government took the lead in launching a system of old age pensions and agreed to match provincial appropriations for that purpose under certain specified conditions. At the beginning and again at the end of the period the Dominion made emergency grants to the provinces to assist in the relief of unemployment. When the serious plight of the Maritimes became an unmistakable fact, the Dominion took steps to assist them and increased subsidies, in accordance with the findings of the Duncan Commission, sufficiently to cover the current deficits. This was an admission that when a province had demonstrated in a painful way that it was unable to fulfil its responsibilities, the Dominion was prepared to extricate it from its immediate difficulties. Only in extreme cases was the Federal Government willing to undertake equalizing action. In all other circumstances the Dominion shied away from new financial burdens and studiously resisted suggestions that it should aid the provinces to carry their mounting obligations.

There were a number of reasons for this attitude on the part of the Federal Government. Its own burden of debt and the costs of reorganizing the government railways were acutely inhibiting influences. Intent upon retrenchment and reduction of debt charges, it insisted that the British North America Act laid the responsibility for meeting the new demands at the doorsteps of the provinces and the municipalities. For the same reason it was little disposed to assist the provinces by making conditional grants-in-aid for specific provincial services. Moreover, the conditional grant was far from being generally approved as an appropriate device in the hands of the Federal Government.

Conditional grants were first used in 1913 when federal assistance to the provinces for agricultural instruction was granted for a ten-year period. As part of the reconstruction program at the close of the War, similar grants were provided for assistance to highways, technical education, control of venereal disease, and maintenance of employment offices. These grants were either experimental or were given under extraordinary circumstances. Most of them were given for but a limited period of time. However, there was a body of opinion which favoured vigorous federal initiative and leadership for national purposes, even in fields where the primary responsibility rested with the provinces. It supported the further extension of the technique of the conditional grant as an instrument of national policy. The opponents to the use of such grants objected on the ground of the well-known argument that a government which spends public funds should bear the full responsibility of levying the taxes necessary to provide the money. They also emphasized that a harmonious federalism depended on the Dominion respecting the untrammelled independence of the provinces in their own sphere. They argued that attempts to ensure careful spending of federal funds would involve the Dominion in a dangerous interference with the autonomy of the provinces. This latter view was dominant in federal politics throughout the greater part of the twenties. Thus theory supported practical considerations of economy in rejecting conditional grants. The system of conditional grants was not extended and the subventions for agricultural instruction, highways, and technical education were allowed to lapse. Apart from exceptions already noted, the Dominion was bent on avoiding new obligations in the post-War period. The general prosperity of the later years of the twenties made this possible without any

[16] Ontario and Quebec in 1930, with 60 per cent of the total population of the Dominion, were collecting 87 per cent of the total succession duties. These Provinces had large reserves of revenue in their ability to make levies on national business organizations whose principal offices and property were located within their borders.

immediate repercussions in the provinces, but it did not prevent the provinces getting into seriously exposed positions.

Signs of approaching difficulties were not wanting. The distress of the Maritimes was met temporarily by the award of the Duncan Commission which nearly doubled their subsidies. At the Dominion-Provincial Conference of 1927, when the award was approved by the other provinces, all the provinces except Ontario and Quebec gave notice of further claims. They complained that their fiscal resources were not adequate to their obligations, and proposals ranged from the assumption of new services by the Dominion to the withdrawal of the Dominion from certain fields of taxation. The reply made by the Dominion Minister of Finance to these various claims and suggestions mirrors faithfully the attitude of the Dominion throughout the twenties. If the obligations of the provinces were heavy, so were those of the Dominion. The Dominion was anxiously concerned over its heavy debt and the importance of maintaining Canada's credit so as to encourage the flow of investment into the country. The Dominion could neither undertake large new responsibilities nor relinquish fields of taxation. The suppliant provincial premiers had to derive what solace they could from the reminder that Dominion policy in lowering taxation helped to clear the field for heavier provincial taxation.

Despite the anxiety of the Dominion to reduce its obligations the total annual sum transferred by way of subsidies and conditional grants to the provinces was higher in 1930 than in 1921. The award of the Duncan Commission, along with the payments on account of old age pensions, more than cancelled the savings secured through the lapse of several conditional grants. In 1930 a federal grant of $3 million for relief made its appearance. Dominion payments to the provinces which had stood at $18 million in 1921, amounted to almost $24 million in 1930. However, their relative importance declined. Dominion subsidies and grants which had covered 20 per cent of the expenditures of provincial governments at the opening of the period covered only 13 per cent of those expenditures at its close. In their assumption of new responsibilities, the provinces had to rely almost entirely on their own resources. Depression was soon to show the common vulnerability of their fiscal systems and the great disparities in the abilities of the different provincial governments to carry their increased burdens.

3. Dominion-Provincial Relations

Eclipse of Federal leadership—completion of developmental program, reluctance to assume new financial burdens, and lack of new national objectives

The post-War period marked the end of an era in Canadian federalism. Up until the War, Dominion Governments had pursued, subject to minor hesitations and variations, a number of national policies which brought about an economic integration of the country and helped to make political unity a fact instead of merely an aspiration. The War and the problems of demobilization served to continue into the twenties the federal leadership to which the country had become accustomed. But after the liquidation of the War policies a new situation presented itself. The policies of all-Canadian transportation and western settlement had been brought to fruition. The tariff, though revised downwards to some extent, was a bone of regional contention rather than a unifying influence. During the period the consummation of Dominion status and the securing of a measure of international recognition brought the principal external policies of the country to a successful conclusion. The Dominion had completed the concrete, positive tasks which the Fathers had set it to do and no broad new national objectives emerged to unite people behind federal leadership. Indeed, the discussions over national policies were much more concerned with assessing their past effects than with charting a national course in the post-War world.

The social and political chaos loosed in the world by the War was manifested in Canada by the disorganization of the federal political system. During the first half century of Confederation, Canadian politics had been distinguished by the solidity of party loyalities and by the duration and stability of party administrations. But the Liberal Party was disorganized by the conscription issue and the Union Government disintegrated rapidly after the conclusion of the War. Federal politics in the first five years of the period showed the stultifying effect of this change. In the election of 1921 the Liberals got a nominal majority of only a few votes over all parties. The 65 Progressives, representing a revolt against the old national policies, held the balance of power in the House of Commons. From 1921 to 1926 the composition of the House of Commons in which there were three parliamentary groups, none of them constituting a

definite and stable majority of the House, discouraged the forming and carrying through of consistent and vigorous government policies.

There were other reasons why the Dominion did not embark on vigorous action. The public demand for increased government services in the twenties mainly concerned things which were, in the first instance, at least, the constitutional responsibilities of the provinces. A compulsory national wheat board was beyond the peace-time powers of the Dominion. While the Government seemed generally sympathetic to a national scheme of unemployment insurance, it was unable to embark on it without the co-operation of the provinces.* Moreover, the heavy debt charges of the Dominion which, by 1921, were one-and-a-half times the total Dominion current expenditures of 1913, were a matter of anxious concern to the Government and tempered any regret it may have felt that the initiative in most current problems rested with the provinces.

The only important thing the Dominion did in this decade to overcome the constitutional obstacles to federal action was to encourage the establishment of provincially-administered old age pensions schemes with offers of financial assistance. This assistance recognized a social problem which was reaching serious proportions. The wave of immigrants which reached the country in the early years of the century was bound to produce at a later date a wave of persons reaching the end of their active working lives. Those of mature age who had come to Canada in the early days of the wheat boom were ending the working period of their lives in increasing numbers in the late twenties. A greater proportion of these than of the younger immigrants or of the native born were unable to lay by a provision for their old age. They swelled seriously the ranks of the aged poor at a time when changes in the economic and social structure were intensifying generally the problem of old-age dependence. The heavy war casualties also contributed to the sudden emergence of the problem since many aging parents had lost the source to which they would normally have looked for support. The burden of the care of the aged poor over-taxed the resources which had supported them in the past and, with other problems of public welfare making increasing demands, the provinces were reluctant to assume such a heavy charge alone. The Federal Government modified its principles and came to their assistance.

With this important exception, the Federal Government did not wrestle with the social problems of the new age. Indeed, during the rising prosperity of the twenties few were aware of their existence. "Normalcy", pursuit of wealth, confidence in high wages as the road to social security, definite expectation that "normalcy" meant a very rapid advance in material prosperity and that the full utilization of new techniques would not be retarded by economic conditions such as mass unemployment, represented in Canada, as in many other countries, the prevailing temper of the time. Given these beliefs there seemed less need for federal controls. There was no broad public support for a vigorous policy of the Dominion in the field of social welfare. In domestic affairs it contented itself with detailed modifications and amplifications of old-established national policies.

Ascendancy of Provincial Governments—development of provincial resources, aggressive highway programs and extension of welfare services greatly enhance their importance and strengthen their political support

The provinces were not affected by war weariness and there were many things to be done in the provincial sphere which solid majorities would support. The War had put a damper on provincial expenditures and many needs had accumulated. Each province proceeded to meet them in so far as its resources permitted. The national developmental policies, expressed in railways and canals, were at a standstill, while new provincial programs of development, expressed in highways and waterpower, were in the ascendant.

An immediate result of this extended range of activity was to add to the prestige and power of the provincial governments. The provinces owned the natural resources which had become immensely valuable through the development of new techniques. A tribute to their new importance was the determination which the Prairie Provinces displayed in this period to get control of their natural resources. Labour and capital began to depend on provincial highway and other developmental programs for jobs, contracts, and various industrial opportunities as they had formerly been dependent on railway construction and the schemes of development initiated by the Federal Government. The "new men" of the period, the adventurous figures who discovered and developed the wealth of the Pre-Cambrian Shield, exhibiting all the vigour and self-confidence of a rising class,

* *Debates House of Commons*, 1922, Vol. II, pp. 1073-4

associated themselves, as a rule not with federal politics but with those of the provinces where the key to their interests and aspirations lay.

Moreover, provincial governments assumed a larger importance in the daily lives of the people. At the Dominion-Provincial Conference of 1927 Premier Taschereau pointed out that "the provinces were more in contact with the people, educating them, building their roads, and looking after their health." From the point of view of the recipients, they became also the donors of old age pensions; they provided mothers' allowances and minimum wage legislation. The popular basis of provincial political power was being solidly laid at a time when the Dominion was losing its intimate touch with the people, and when its developmental projects no longer gripped the imagination and no longer gave increasing employment to labour and capital. Instead the Dominion was intensively engaged in making vexatious levies for the payment of old debts.

The combined effect of these factors was to elevate the provinces to a new position in Dominion-provincial relations. The control over the public domain, the jurisdiction over public welfare, and over those economic matters in which the courts had sustained them, took on new content and significance. The provinces, which had once been compelled to struggle to escape complete domination by the Dominion, had come into a goodly heritage of their own.

Federal Concessions to Provincial Claims—Maritime claims, natural resources question, water-power, Dominion-Provincial Conference, 1927

The common interest in western development had, for twenty-five years, continuously strengthened East-West bonds of unity. In the twenties a variety of regional interests began to compete seriously with this common interest. British Columbia and the Central Provinces acquired important direct contacts with external markets which lessened their dependence on internal markets. The political revolt in the immediate post-War years of western agriculture against the old line political parties has already been noted. The continuance of the post-War depression in the Maritimes up until 1925-26 seemed to argue that the national economic integration was of little advantage to the Maritimes and they attacked rather than supported the operation of the national policies on which it was based.

The severe economic difficulties under which the Maritimes laboured in the early twenties aroused profound dissatisfaction, particularly after the contrast of marked recovery in the rest of Canada became apparent. By 1924 these adverse conditions produced a formidable movement for the vindication of "Maritime Rights", led and directed by the business interests of the region. Economic conferences called at Moncton and Charlottetown in 1925 studied a wide range of economic problems and gave extended publicity to their final resolutions. While the formulated demands called for a solution through federal action, there were some who advocated secession from the Dominion as the only escape from an intolerable situation.

The economic and financial distress of the region, combined with the vigour of the agitation, led in 1926 to the appointment of the Duncan Commission to investigate Maritime claims. The Province of Nova Scotia filed a comprehensive brief, dealing in detail with the whole range and history of Dominion-provincial relations as they affected the Maritimes. New Brunswick and Prince Edward Island accepted it as the basis of their case. All this material was marshalled together in a single volume for the purpose of proving that the Maritimes had never obtained the substance of the benefits promised them at the time of Confederation and that consequently they had never enjoyed a welfare and prosperity comparable to those of other parts of Canada. The brief maintained that the Maritimes had never received their promised share of the internal commerce which the union was designed to promote and that this failure flowed from the fact that the national transportation and tariff policies of the Dominion had been framed and enforced in callous disregard of the rights of the Maritimes.

It is not the present purpose to consider the justice of these claims nor to discuss the measures of amelioration which the Commission proposed. It is rather to draw attention to the political significance of the agitation. An entire region of the Dominion, moved apparently by a common sense of injustice, protested against the inequitable operation of the national policies. Whatever rights may have been involved, the plight of the Maritimes was serious. A region, suffering from these difficulties and animated by a sense of injustice, found that its most immediate interest in national affairs was to secure some recognition of its regional troubles.

By the time the Commission on Maritime claims had reported the long-continued agitation of the Prairie Provinces for control of their natural resources had become very insistent. It is significant that at the Dominion-Provincial Conference of 1927 where both questions were considered, the Maritime Provinces and the Western Provinces supported each other's claims. The older provinces had retained the ownership of the natural resources within their boundaries but the Dominion, under the Manitoba Act, had reserved the western lands "for the purposes of the Dominion". Dominion control of these lands had been the foundation of the national policy of western settlement and as well of the policy of a transcontinental railway. As settlement was now well advanced, it was plausible to argue that the purpose of the Dominion had been achieved, and that the lands might now be transferred to the provinces. However, the Prairie Provinces were not content merely to secure control of the public lands. In this period of regional demands on the Federal Government, they insisted that the retention of the western natural resources had always been a violation of certain inherent "provincial rights" which antedated and were in no way abrogated by Confederation. Accordingly, they claimed that the provinces were entitled to ask the Dominion to account for all the material advantage it had derived from the lands after 1870. They, therefore, sought an accounting from the Dominion on this basis.

The Dominion Government conceded the substance of these claims in 1928, when after a conference with representatives of the Government of Manitoba it agreed that Manitoba should be "placed in a position of equality with the other provinces of Confederation with respect to the administration and control of its natural resources, as from its entrance into Confederation in 1870". The Turgeon Commission was appointed to "inquire and report as to what financial readjustments should be made to this end". The Commission interpreted this as an instruction to estimate whether "Manitoba is in as good a financial position as she would probably have been in had her right to the administration and control of her natural resources been conceded from the beginning". The inquiry was directed toward reaching some kind of an estimate as to whether the alienation of Manitoba lands "for the purposes of the Dominion" as set out in the Manitoba Act had caused loss to the Province. Alienation of lands for public purposes within the Province was regarded by the Commission as affording but a slight basis for claims for compensation. "We are placing", said the Commission in its report, "a light appraisal on the loss to the Provincial Government in respect to homestead land." There was, it was held, no basis for a claim of compensation for land given to aid the construction of branch lines within the Province. For lands allotted to the Canadian Pacific Railway for the construction of its main line outside the Province, compensation was held to be due. The Commission, by an intricate and ingenious calculation, estimated the cost of these alienations to the Province and made an award. A similar procedure was followed with respect to the claims of Saskatchewan and Alberta;[17] and Commissions, headed by Mr. Justice A. K. Dysart, made awards to these Provinces upon the precedent set by the Turgeon Commission in the case of Manitoba. The transfer of the natural resources to the Prairie Provinces had important symbolic significance. It marked the completion of the great effort of the Dominion to achieve nation-wide expansion through national direction of western settlement. The success of the Western Provinces in getting the Dominion to account for its stewardship as well as the recognition of the claims of the Maritimes announced a new era in Dominion-provincial relations, an era in which regional disparities, regional difficulties, and regional ambitions became a principal concern of federal politics.

Another Dominion-provincial issue of importance in the latter years of the decade was that of the development of the St. Lawrence Seaway Canal. Proposals for development for navigation and power purposes were under consideration as early as 1920. Quebec, however, opposed the development of navigation lest it prejudice the port of Montreal, while both Ontario and Quebec opposed development of power by the Dominion, claiming that water power within the province, even in navigable waters, was a matter of provincial ownership and jurisdiction. Requests were made at the Dominion-Provincial Conference of 1927 for reference of the question of jurisdiction to the Supreme Court of Canada, and the following year the Dominion referred ten stated questions to the Court, but owing to the generality of the

[17] The Dominion Government's proposal was that there should be, with respect to Saskatchewan and Alberta, an inquiry "in order that the provinces might be placed in a position of equality with the other provinces as from September 1, 1905", the day upon which the provinces came into being. The Saskatchewan government contended that the adjustment should go back to 1870, the date of the transfer of Rupert's Land to Canada. A stated case was submitted to the Courts and in 1931 the Supreme Court held that the province had no claim to the natural resources of the area prior to September 1st, 1905. In the following year this judgment was upheld by the Judicial Committee of the Privy Council.

questions the answers were far from conclusive. In the meantime the Quebec Legislature had granted a private corporation a charter for a power canal on the Soulanges section of the proposed seaway development. Although the company subsequently had to apply to the Dominion for permission to divert water from Lake St. Francis, the undertaking was begun and, after the opinion of the Court was delivered, permission for the diversion was given by the Dominion. The discussion in Parliament on the permit indicated that, despite the inconclusiveness of the opinion of the Supreme Court on the matter of jurisdiction, the Dominion had substantially conceded the provincial claims to ownership and control of water power in navigable waters.

During the twenties the method of amending the Constitution for the first time became an issue between the Dominion and the provinces. The method of amending a federal constitution is always difficult to work out, but the problem had been finessed in 1867 by omitting from the British North America Act all reference to amendment and thus leaving amendment to the enacting authority —the Imperial Parliament. The change of status of the Dominion during and after the Great War gave rise to a widespread demand in the twenties for the transfer of the power of amendment to Canada. This inevitably raised the question of method and at the very time that the prestige of the provinces was in the ascendancy. The British North America Act had been amended six times, but on one occasion only—that of 1907 which concerned provincial subsidies—had the provinces been consulted. At the Dominion-Provincial Conference of 1927 the Dominion Government raised the question and recommended that Canada should have power to amend her own constitution, that the provinces should in all cases be consulted, and that for the amendment of a number of specified matters deemed fundamental the consent of all provinces should be required, but that in other matters the consent of the majority would be sufficient. Despite the consideration given to provincial sentiment, the proposal failed to carry, because of disagreement as to method and because certain provinces were opposed to any change in procedure.

A significant contribution was later made to the literature of constitutional theory (and hence to the controversy over methods of amendment) by the Government of Ontario when the Statute of Westminster, which was to formalize certain of the findings of the Imperial Conferences of 1926 and 1929, was under discussion. Ontario opposed adoption of the Statute by the Dominion without consultation with and approval by the provinces on the ground that the Statute was in effect an amendment of the British North America Act, and that this Act was a compact between the provinces and as such could not be amended without their consent. Following the election of 1930 the new Government called a conference of the provinces and secured their approval of the Statute, thereby seeming to admit the validity of Ontario's argument.

No less significant than the apparent retreat of the Dominion on various constitutional matters were the growing demands for the expansion of provincial revenues at the expense of the Dominion. The Duncan Commission, as already noted, found that the Maritime Provinces were in a serious condition of fiscal need and recommended on one ground or another substantial increases in subsidies to these Provinces. The demands of the Prairie Provinces for the return of their natural resources were obviously aimed not only at establishing the constitutional equality of these provinces but at increasing their revenues as well. The Dominion-Provincial Conference of 1927 was the occasion for warnings from British Columbia of its difficult financial position, as well as for general demands, from virtually all provinces, for increased subsidies and for grants for such matters as highways and technical and agricultural education. The Conference also heard demands for enlarging the provincial tax base, British Columbia urging that the Dominion should withdraw from the income tax field, Manitoba that the provinces should be granted a fixed percentage of customs and excise taxes. All these incidents and demands were symptomatic of the narrow margin of safety in which the provinces were finding themselves, and indicated that any serious renewal of economic difficulties would increase their demands upon the Dominion.

Conclusions

Throughout this period the provinces were politically aggressive in undertaking new activities, in advancing their own affairs, and in securing concessions from the Dominion. In their difficulties, in their ambitions and opportunities, as well as in the disparities between them, several sets of common interests of a regional character emerged. These regional forces served to weaken the common interest in a national integration based on wheat. In the general prosperity of the twenties, which provided an expanding national income, the regional interests were harmonized amicably with-

out serious friction or serious sacrifice and the provinces were able, with more or less difficulty, to carry the new responsibilities they had assumed.

But the great depression which began at the end of the period, and which will be described in the next chapter, was to widen greatly the disparities, and to reveal both the insecurity of the foundation on which prosperity had been based, and differences of interest which were extremely difficult to reconcile under conditions of sharply falling revenues. These differences of interest were to assume a new significance in an era of depression, when weaker provinces, overwhelmed in the struggle to carry new and old responsibilities, were to become financial wards of the Dominion, and the strongest provinces stood to gain by enlargement of provincial autonomy.

Chapter VI

THE DEPRESSION

1. World Depression and Recovery

Economic Dislocations in the Post-War World—Effects of the War, peace treaties and technological changes required basic readjustments in international economic relations

The economic progress of the world during the twenties was impressive. Between 1920 and 1929 the per capita world production of primary commodities, and of manufactured goods rose 31 per cent and 38 per cent respectively. The quantum of world trade per capita increased by at least 30 per cent. It is remarkable that these striking advances in the world economy were possible while serious structural weaknesses continued to exist and were even intensified.

The war-stricken world of 1920 faced an economic order which was drastically changed from that which obtained prior to 1914. The demands of the conflict, the terms of the peace treaties and technological changes greatly altered the basis of international economic relations. There was a very substantial increase in the production of foodstuffs and raw materials in overseas countries. The manufacturing industries of the United States, the British Dominions and Japan received a strong impetus from the War-time decline in European exports. During the twenties machine methods of production spread throughout the world with increasing rapidity. Non-European countries were in the better position to benefit from important technological improvements and assumed the leadership in the production of automobiles, electrical appliances, radios, and the new textiles. New sources of power weakened the influence of coal as a dominant factor in the localization of industry. Northwestern Europe languished while one of its basic natural advantages was disappearing and areas with abundant supplies of water-power and petroleum came to the fore.

The shifts in manufacturing production were accompanied by equally important shifts in the production of cereal foodstuffs and industrial raw materials. The mechanization of agriculture greatly altered the competitive balance between the European peasant and the large-scale specialized farmer in overseas countries. The tractor, the combine, power-driven machinery, and the motor truck were most effective on the semi-arid plains of America and Australia. Between 1914 and 1930 the number of acres of improved land per person engaged in agriculture on the Canadian Prairies rose by about 50 per cent. As a result of the War and lower costs in overseas countries, Europe's contribution to the total world (except Chinese) production of wheat fell from 56 per cent in 1909-13 to slightly over 40 per cent in 1926-29. During the same interval the European production of all cereals, sugar and potatoes decreased from 43 per cent to 39 per cent of the world total. The pre-War situation with respect to the geographical sources of industrial raw materials and the relative costs in the different areas was likewise greatly altered by technical improvements and new discoveries. In 1913 about 50 per cent (in value) of the world's non-ferrous metals were produced in America and Africa; by 1929 this proportion had risen to nearly 70 per cent. The share of new countries in the total physical output of petroleum, timber, newsprint, wood-pulp and vegetable oils showed similar increases. Furthermore the competitive relationship between old and new producers of bulky foodstuffs and raw materials was strongly affected by the abnormally depressed ocean freight rates of the twenties. In terms of the general price level, tramp steamer freights were fully 30 per cent below the pre-War rates. The opening of the Panama canal greatly shortened the distances of Pacific countries from Europe and the eastern shores of America. The substantial reductions in the costs of shipment brought many newly developing areas within the scope of the world market and increased the flow of heavy commodities to distant importers. These changes had wide-spread repercussions, but perhaps none was more significant than the increased pressure upon the peasant farmers of Europe.

The readjustments in international economic relations required by the rise of manufacturing in overseas countries, technological improvements and reduced costs of transportation were intensified by the post-War situation in international finance. The nature and the net balances of international indebtedness had greatly changed. A large proportion of the debts were for unproductive purposes. The financial world was entangled in a maze of

inter-governmental War debts and reparations. The United States emerged from the conflict as the world's second largest creditor, Germany as the largest debtor. The pre-eminent position of London as the regulator of the international gold standard by virtue of being the clearing centre of international transactions, the greatest lender on foreign account and the largest free import market, was immensely weakened. Its rivals, New York and Paris, played increasingly important parts, but neither had the experience or willingness to follow the long-range policies necessary for the maintenance of stable international monetary conditions out of which a rising volume of world trade could develop. International lending during the post-War period was sporadic; much of it was to governments which squandered the money on ill-advised and unproductive projects. The large proportion of short-term loans in international indebtedness added further to the instability of foreign investment. The restoration of the gold standard had brought with it the problem of undervalued (the United States dollar, the French franc and the Belgian belga) and overvalued (the British pound and the Italian lira) currencies. The strain resulting from the failure of national price levels to become adjusted to the re-established gold parities was temporarily relieved by the expedient of short-term borrowing. This factor, together with the general feeling of uncertainty and the development of the gold exchange standard, created a large volume of liquid funds which flowed nervously back and forth across the international exchanges. The solvency of important monetary centres came to be dependent upon a thin thread of confidence which temporary setbacks, political disturbances or rumours would quickly break.

Failure to Achieve Solutions to International Problems—resort to national controls and temporary makeshifts; development of agricultural crisis and over-extension of raw material production

The widespread economic dislocations and the unstable condition of international finance which were the outcome of war and of technical progress required substantial readjustments and a new integration of the economic world. They required extensive reallocations of resources, alterations of wage and price levels, a reduction of restrictions on trade and the sacrifice of vested interests. The magnitude of the changes involved was such that they could only be accomplished with international co-operation to lower tariff barriers, maintain stable exchanges and make capital available. However, the efforts to achieve international co-operation failed dismally in the economic sphere as in the political. Nations sought the solution of these problems by the use of their own national controls and national policies. All the weapons in the arsenal of economic autarky were brought into play. Weak positions were protected, high cost producers were kept in production and obsolete equipment was preserved by rising tariffs, import quotas, cartels, government subsidies, "rationalization", restriction schemes, stabilization of prices, etc. A large part of the economic history of the first post-War decade chronicles superficial efforts to defy serious underlying dislocations. Europe struggled desperately to regain her pre-War position in an economic world which was greatly changed. This was particularly the case in agriculture. The peasant populations of Europe who in many instances formed the backbone of the state and whose political and social importance was great in all countries could not be sacrificed on the altar of cheap food. The consequences of the readjustment to the revolutionary increases in output and decreases in the costs of production in overseas countries were too drastic. This circumstance, together with the rising barriers against European exports of manufactures and the desire for self-sufficiency arising out of the fear of war, produced an extreme form of agricultural protectionism. The boundary revisions of the peace treaties intensified the harmful effects of this policy. Eight small states, each with its own currency and customs sovereignty, were carved out of three large empires. The economic system of Austria-Hungary, based on regions which "had grown up in mutual interdependence in the course of centuries", was broken into small parts and choked with tariff barriers. As European output expanded behind customs restrictions, and production in overseas countries continued to increase on the basis of natural advantages, a major crisis in world agriculture developed.

The unbalanced agricultural situation was accompanied by an increasing deterioration in the position of the raw materials. The old high-cost producers everywhere were threatened by new supplies and new processes. Obsolete or submarginal capacities were not withdrawn from production but were maintained in production by artificial means. For commodity after commodity, prices were artificially maintained or raised to bolster up uneconomic enterprises. None of the

various stabilization or restriction schemes had control over the total output and these attempts at increasing or fixing prices in the end served only to induce an abnormal expansion of production on the part of the non-restricted or non-conforming producers. Between the beginning of 1925 and the beginning of 1930, world stocks of twelve important raw materials rose by 40 per cent. During the same period world stocks of agricultural products increased by 50 per cent. These stocks hung menacingly over the markets ready to come down upon the price structure like avalanches.

The policies of creditor countries contributed much to the accumulating weaknesses in the structure of the world economy during the twenties. The attempt to collect increasing interest payments, to sell more and buy less, encounters an arithmetical impossibility. The unwillingness of the United States and France to lower, or even to stabilize, their tariffs so as to adjust their import balances in a manner consistent with their creditor positions produced an increasing disharmony between the flow of world trade and the requirements of international indebtedness. As the debts of borrowing countries rose it became continuously more difficult for them to export goods of sufficient value to meet the interest charges. They were forced to attract short-term funds by high interest rates and to lose their gold reserves with the result that their monetary systems were placed in an extremely weak condition. The strain was particularly great in Germany and in a number of agricultural countries especially those of south-eastern Europe.

The post-War world failed utterly to achieve a satisfactory compromise between the advantages of international specialization and national stability and security. For a time world economic activity and trade rose sharply because international lending and the constant renewal and increase of short-term balances filled the gaps in the balances of payments, because boom conditions were maintained by reconstruction in Europe and by the demand for investment and durable consumers' goods in the United States, and because heavy capital expenditures were being made for the exploitation of natural resources in new countries. However, by 1929 these temporary makeshifts and stimulants began to play out. The reconstruction boom in Europe was virtually completed. After the middle of 1928, international lending contracted rapidly. It became increasingly evident that productive capacities in a number of raw material industries were seriously over-extended. Cereal prices were sagging and the agricultural crisis was imminent. At this conjuncture, a spectacular stock market boom in the United States sucked short-term funds to New York thus creating a world-wide stringency of credit. When this boom collapsed the catastrophe was at hand.

World Depression—cessation of international lending; strangulation of trade; breakdown of gold standards; sharp and disproportionate decline in raw material prices; severity of impact on debtor countries and exporters of primary products

In the United States confidence was severely shaken by the collapse of the stock market and the tremendous activity in capital investment was abruptly curtailed. The contraction of international lending, the attempt of creditors to recall their short-term funds and the general monetary tightness, put a heavy strain on the balances of payments of debtor countries. Germany was forced to cut down her imports sharply. Other debtors, who were mainly agricultural or producers of raw materials, were obliged suddenly to increase their exports. It was not long before many of the control schemes broke and loosed a flood of goods on the market. Russia reappeared as a big seller of raw products, chiefly wheat and timber. While the pressure upon the world market for agricultural goods and other raw materials was rising, Europe's ability to export manufactures to the United States and, therefore, to import foodstuffs and raw commodities was drastically curtailed by the Hawley-Smoot Tariff (1930). In order to protect their precarious financial and foreign exchange positions, or to shield the livelihood of their peasant populations, European countries imposed insurmountable duties and other restrictions upon the importations of foodstuffs. The impact of increased supplies upon mounting trade barriers and decreasing consumption resulting from the world-wide decline in investment produced an unprecedented fall in the prices of agricultural products and raw materials. In particular, the reduction of lending, weak and exposed monetary systems, and the general heightening of tariffs concentrated the full force of the depression upon those surpluses of goods which had to find an international market. Eventually, practically every country, creditor and debtor alike, had to, or chose to, make its adjustments not by an increase of trade, but by a reduction of imports.

Between 1929 and 1931 the value of world trade fell by 42 per cent. The drastic effects and uneven character of this decline are indicated by the 40 per cent drop in the export prices of seven leading overseas agricultural and raw material producing countries, compared with but a 15 per cent drop in the prices of their imports, which were mainly manufactured goods. The disparity revealed by this relation was one of the most characteristic and disruptive features of the world depression. The number and importance of the rigid elements in the economic system had greatly increased. The relative decline of equity investment in favour of bonds, and the extension of large-scale corporate enterprise added substantially to interest and other fixed costs. Wage rates acquired almost the rigidity of contractual interest charges. The elaborate economic overheads and frills that go with a rising standard of living proved to be particularly inflexible. The invariable costs were translated into administered or rigid prices most readily in the manufacturing and distributive industries where monopolistic conditions are most prevalent. The cartels were far more effective than their counterparts, the restriction or stabilization schemes for the raw materials. The producers of manufactured goods and the distributive trades, countered the declining demands by *restricting* output and maintaining prices; the primary industries, where small-scale individual enterprise is most general, tended to *increase* output against sharply falling prices. The former discharged their employees thus creating the problem of mass unemployment; the latter had to reduce drastically their standards of living and to default on many of their debts.

The divergence between the prices of raw materials and those of manufactured goods was a general phenomenon. It produced serious dislocations between the primary and secondary producers in nearly every country and placed a severe strain on the economic relations between raw material countries and those which exported finished goods. Between 1929 and 1931 the cost of the imports of the former rose approximately 30 per cent in terms of their exports; in two years the real burden of servicing their external debts increased by about 40 per cent. These abrupt changes quickly caused a number of breakdowns in the mechanism of international finance. Australia, New Zealand, and most of the Latin American countries were soon forced off the gold standard. The failure of the Austrian Kredit-Anstalt in the spring of 1931, which revealed the precarious situation in South-eastern and Central Europe, started a succession of financial crises which sent the world headlong down the incline of depression. There was an immediate drive to liquidate the short-term foreign loans in Central Europe, especially Germany. The run on foreign funds brought on the failure of a number of important German banks, and the entire German financial system began to totter. In order to prevent complete collapse, Germany instituted a rigid control of her foreign exchange, obtained a "standstill" agreement with her short-term creditors delaying the withdrawal of funds, sought and secured a postponement of reparation payments and imposed further restrictions upon imports. Standstill agreements and similar measures were applied in other Central European countries. Following these events the financial crisis shifted to London.

The overvaluation of sterling and Britain's declining share of world trade had progressively weakened her financial position. Partly as a result of this condition London was both a large borrower and lender of short-term funds. As the general uneasiness became acute, foreign deposits were rapidly withdrawn from London. These withdrawals were possible only so long as British loans in Central Europe could be liquidated. When these became "frozen" the drain could no longer be met and the pound was forced off the gold standard. The British abandonment of gold in September, 1931, was temporarily at least, a severe blow. Credit conditions tightened everywhere and international lending ceased altogether. The sharp fall in the gold value of the monetary unit of the biggest import market in the world pushed prices in terms of other currencies, particularly prices of foodstuffs and primary commodities, further down the deflationary spiral. The pressure on debtor countries and on exporters of raw materials and agricultural commodities was intensified. This brought another wave of nationalistic measures to protect the exposed economic and financial structures against collapse. Many of the countries which had close economic relations with Great Britain, namely the Scandinavian countries, most of the British Empire, Egypt and Portugal, followed her off the gold standard immediately. Between September, 1931 and the middle of the next year, seventeen countries departed from gold. Nearly thirty countries established controls over their foreign exchanges. The disorganization of international finance and the continued decline in gold prices were accompanied by an increase in restrictions to trade. In addition to the raising of tariffs

in nearly every country on the globe, there was a virtual stampede in the adoption of import quotas, licensing systems, import monopolies, milling regulations, etc. Great Britain, long the stronghold of free trade, succumbed to a system of moderate protection. Under the growing paralysis caused by these measures the value of international trade fell precipitously. The economic world lay prostrate and apparently helpless under a succession of disasters.

By 1933 the value (in terms of pounds sterling) of world trade had fallen nearly 50 per cent from the level of 1929. About half of this contraction was due to the fall in prices and half to the shrinkage in volume. These decreases, because of their nature, fell with particular severity upon the debtor countries and the exporters of primary commodities. In order to maintain solvency supplies were pressed upon the export markets intensifying the disproportionate decline in prices. The volume of world trade of foodstuffs and raw materials dropped only 15 per cent, compared with a decrease of 40 per cent in manufactures. The prices of the former, however, fell about 15 per cent lower (from 1929) than the latter. The effects upon agricultural exporters of import restrictions and the attempts to attain self-sufficiency are illustrated by the fact that, while in 1933 the total world production of foodstuffs was slightly greater than in 1929, world trade in these commodities had fallen by nearly a fifth. The agricultural crisis together with the strangulation of trade and the widespread dislocation of the international exchanges were the major factors contributing to the unusual severity of the depression. At the bottom of the decline world industrial production had fallen 37 per cent from 1929. Three out of every ten of the world's industrial wage-earners were out of work.

Recovery—failure of international efforts and intensification of economic nationalism

It seemed to be impossible to overcome the international economic anarchy which so intensified and prolonged the slump. The failure of the World Economic Conference of 1933 emphasized the apparent futility of the attempts to promote recovery through international co-operation. Each country turned to its own national policies to bring about economic revival. Everywhere defences were thrown up to shield the national economies against depressing or limiting external influences. Great Britain sought to stimulate recovery by a policy of easy money behind an exchange depreciated against the gold bloc, encouragement to home investment by the restriction of foreign and governmental assistance to housing, moderate protection to industry and protection and subsidies to agriculture. The Scandinavian countries and the British Dominions likewise tried to promote easy money, price raising and investment, behind depreciated exchanges and greater restrictions against imports. The United States endeavoured to raise the internal price level by increasing the price of gold; to remove the disparities between agricultural and industrial prices by restricting farm output to domestic requirements; to spread employment and raise wages by shortening hours, regulating competitive conditions, and strengthening the power of organized labour; to promote investment by credit expansion and easy money; and to increase consumers' purchasing power by a gigantic program of government spending. In contrast to the expansionist policies of the nations with depreciated currencies, the gold bloc countries (chiefly France, Switzerland, Belgium and the Netherlands) attempted the vigorous program of deflation demanded by the maintenance of the gold standard. As the deflation continued confidence waned, the depression deepened and tariffs, import quotas and import licences became more and more exclusive. The restrictive measures proved unsuccessful and eventually expansionist policies were adopted which forced the bloc to abandon the gold standard in 1936. The Central European countries, particularly Germany and Italy, used the methods of the totalitarian state to increase employment and to expand economic activity. Exchanges were rigidly controlled; imports were rationed; prices and wages were fixed; profits were limited; the direction of investment and industrial expansion were dictated by the state; huge public works and armament programs were undertaken.

While the devices of national self-help were being employed to hasten readjustments and to promote recovery in individual countries, international efforts were put forth to improve the position of the raw materials which were sold on world markets. Old schemes were revived and new ones started, in some cases under the aegis of the governments concerned and in others merely by direct agreement among the producers. Eventually, nearly every important commodity was subject to some form of control. The newly constituted schemes generally had greater control over total output than those of the past and hence were able to achieve their objectives without the same unfortunate con-

sequences. Thanks to rising demands they were able to work off surplus stocks and to engineer a considerable rise in prices. However, very few international difficulties were so smoothly overcome. The agricultural depression was relieved temporarily only by a succession of disastrous droughts in North America. The most pressing problems of international indebtedness were solved mainly by arbitrary and unilateral methods. A number of countries in Latin America and South Eastern Europe suspended the services on their external debts. The large inter-governmental payments on account of War debts were defaulted. The attempt to collect reparations had to be finally abandoned.

The national efforts, the reduction in the weight of unproductive debts, and to some extent the restriction schemes achieved a considerable success in promoting recovery. Expansionist policies and easy money helped to raise prices; inventories were depleted, capital equipment had worn out and needed replacement, technical improvements accumulated, costs were reduced, the buying of durable consumers' goods revived in the United States and an armaments boom got under way in Europe.

Economic Isolationism and Self-Sufficiency—reduced importance of world trade and unfavourable circumstances of debtor countries and exporters of foodstuffs

In 1937 world industrial production was greater than and world industrial employment was about equal to that of 1929. The price disparities between agricultural products and raw materials on the one hand and manufactured goods on the other had disappeared. However, during the eight years the structure of the world economy had changed significantly. The level of economic activity in Germany, Great Britain, Sweden and Japan was from 15 per cent to 40 per cent higher than in 1929, whereas in the former gold bloc countries, the United States, and Canada it was still slightly lower. While world manufacturing production and the production of industrial raw materials were nearly 20 per cent greater than the pre-depression peak, agricultural production was only 7 per cent greater; the production of non-ferrous metals was 21 per cent greater; wood-pulp 38 per cent greater; electricity 47 per cent greater. The new age of alloys, plastics, and synthetic textiles brought new industries and areas to the fore and left others mired in the depression.

By 1937 total world production was considerably above that of 1929, but the volume of world trade was slightly lower. The divergence between world production and trade was particularly pronounced in the case of foodstuffs and manufactured goods. The world exports of wheat were one-third less and those of finished articles about one-sixth less. The absence of international lending, the heightening of trade barriers as defences against depression and the emphasis upon national efforts to promote recovery, reduced the importance of foreign trade in the world's economic life. This tendency was intensified by the struggle for self-sufficiency which arose out of the deterioration of political relations between nations and the fear of war. The heavy expenditures on armaments reduced the amount of foreign exchange available for imported foodstuffs and other consumers' goods. The choice between "guns or butter" was dictated first to the nations as a whole and then to their individuals. The universal limitation to standards of living, which was involved in the efforts to attain national security, and military power, fell with particular severity upon those who had the greatest stake in the advantages of international economic co-operation—the countries with an overwhelming dependence upon a few specialized exports.

2. The Incidence of the Depression on Canada

Impact of World Depression—its full force falls upon Canada's staple exports; the drastic slump in agricultural and raw material prices

The implications of the nature and extent of the world depression to Canada are obvious. The effects upon this nation, which obtains over one-third of its national income directly from abroad and two-thirds of whose exports consist of raw materials, were extremely drastic. For upwards of thirty years external influences and technical changes had played favourably upon Canada's resources and produced an era of almost unbroken expansion and prosperity. The Canadian economy had become delicately geared to the increasing foreign markets for foodstuffs, newsprint, lumber and minerals. For the production of these commodities a large and expensive transportation system was built and huge amounts were invested in power projects, processing plants, implements and machines. Much of the capital required for the provision of this immense equipment was borrowed from other countries. The application of this capital and of advanced techniques to virgin resources became the principal basis of our economic life. It involved a narrow specialization in the

production of a few export staples, heavy fixed charges, and a precarious dependence upon the commercial policies of other countries.

As long as the conditions of international trade were favourable, specialization yielded a high standard of living and heavy commitments were undertaken with great confidence. Our social and economic institutions became closely related to the nature of the economy and rested on the condition of continuous expansion. When the bases for progress along the old lines disappeared and the full force of the world depression fell upon our specialized exports, the problems of adjustment were extremely difficult. Canada's political, public finance and economic organizations were not adapted to deal with sharp and prolonged economic reverses. When a specific and co-ordinated program was required, there was bewilderment; when positive action was needed there were only temporizing and negative policies; when a realization of the far-reaching effects of the altered circumstances was demanded, there was but faith in the speedy return to the old conditions of prosperity.

The general vulnerability with which Canada entered the world depression was intensified by a number of particular circumstances. The market situation for the two leading exports, wheat and newsprint, was especially weak. The unusually large world and Canadian wheat crops of 1928 created a burdensome surplus which threatened a slump in prices even before the depression began.[1] As world agriculture was rapidly approaching a crisis, this factor was particularly menacing. By 1929 Canadian newsprint capacity was over-extended and the price situation was very unstable. Since Canada supplied 40 per cent of the world exports of wheat and 65 per cent of the world exports of newsprint, she would suffer the full impact of unfavourable developments.

In addition to the dark outlook for the two principal exports, there was the over-extended condition of the internal credit structure. Canada was closely affected by the investment and speculative boom in the United States. Her citizens participated extensively in the New York stock market and assumed large capital commitments with typical North American optimism. These tendencies were facilitated by the nature of the Canadian monetary system which was without anchor and without control.[2] Under the Finance Act the Canadian banks were able to extend their loans and increase the money supply without reference to the restrictions of the gold standard, which in fact had to be abandoned as early as the end of 1928. Consequently, in the atmosphere of the time, credit was over-expanded giving rise to much speculative and inflationary activity. Wage-earners were thus drawn into the capital goods industries in undesirably large numbers and when the depression struck the problem of unemployment and the shock to confidence was all the more severe.

The decline in world economic activity and prices was immediately communicated to Canada and her weaknesses were quickly exposed.

TABLE 41.—THE DECLINE IN EXPORT PRICES AND ECONOMIC ACTIVITY, 1929-33

—	The Prices of 17 Major Exports	Export Prices of Farm Products[a]	All Wholesale Prices	Index of Employment[b]	Index of Industrial Production[c]
1929 July.....	100	100	100	100	100
1930 June.....	82	70	90	93	80
1930 December	66	42	80	87	74
1931 June.....	62	42	74	83	64
1931 December	61	41	72	80	61
1932 June.....	54	37	68	72	59
1932 December	47	30	66	67	52

[a] Includes Wheat, Barley, Potatoes, Cheese, Bacon and Cattle.
[b] Dominion Bureau of Statistics Index of Employment.
[c] Dominion Bureau of Statistics Index of Industrial Production.

It was the sharp fall in export prices which pushed Canada down the incline of depression. The level of export values was directly the basis of the income of a large section of the economy; it determined the incentives for capital investment and the size of the market for the protected manufacturing industry. When these values shrank, the repercussions were widespread. In twelve months (January, 1930 to December, 1930) the average of the prices of 17 major exports fell 30 per cent; wheat was down 57 per cent, cattle 36 per cent, copper 38 per cent, dried codfish 31 per cent, and lumber 20 per cent. The factors which were responsible for these sudden and drastic declines became increasingly unfavourable as the

[1] Between August 1, 1928 and August 1, 1929 the world wheat carryover rose from 697 million bushels to 957 million bushels.

[2] "An examination in the light of contemporary conditions of the rates charged from time to time on Finance Act advances suggests that these rates were not used as an instrument of credit expansion and contraction, but were mainly varied to meet the exigencies of the Dominion Government's finances. The volume of advances was not subject to the restriction of a gold reserve. The Treasury Board did not assume the responsibility of ensuring that the uses made of the Finance Act were consistent with the requirements of a convertible currency. The banks, on the other hand, which could take the initiative of expanding the credit base through advances of Dominion notes under the Finance Act, were under no obligation to use this initiative in maintaining the gold standard. Thus the Finance Act did not provide Canada with the organization needed to undertake the tasks which the maintenance of the restored gold standard implied." *Report of the Royal Commission on Banking and Currency in Canada*, 1933, p. 59.

world depression deepened. Agricultural products particularly were dealt a succession of hard blows. In 1930 the German, Italian and French tariffs against wheat were raised to the prohibitive levels of $1.62, $1.07 and $0.85 per bushel respectively. Later such duties were supplemented by all manner of quantitative restrictions which almost completely closed these important markets and decreased the export outlets by upwards of 150 million bushels a year. During 1930 the currencies of Canada's principal competitors in the wheat market, Australia and Argentina, began to depreciate rapidly. When Britain abandoned the gold standard and the monetary unit of the largest purchaser of wheat went to a discount in terms of Canadian dollars, Canada's disadvantages were intensified. By the end of 1932 the Australian pound and the Argentine peso were 46 per cent and 40 per cent, respectively, below their former gold parities. Furthermore, during 1930-32 Russia suddenly pushed large supplies of wheat into the world market, the Danubian countries began to subsidize exports, and the United States Federal Farm Board started to unload its stabilization holdings. In December, 1932 the Winnipeg wheat price fell to 38 cents per bushel, the lowest in history. The agricultural problem was generally aggravated by the Hawley-Smoot Tariff of 1930. During the twenties an important export business in cattle and potatoes, and a border trade in milk and cream was done with the United States. The new tariff rates put an end to these and the surplus production flooded the domestic market.[3] By February, 1933, the average of all Canadian farm prices had fallen nearly 60 per cent from 1929.

Primary products other than those of agriculture suffered similar, if not quite such drastic, price declines. The producers of lumber were especially affected by the sharp curtailment in construction activity. Furthermore, the free entry of lumber into the United States was terminated by the tariff of 1930 and the high duty imposed by the Revenue Act of 1932.[4] In the British market the Canadian exporters faced increasing competition from Russia and the Baltic countries, which with the depreciation of their currencies after 1931, had an exchange advantage.

As in the case of lumber, the exports of base metals were heavily dependent upon the world boom in capital investment. When this boom broke and the buying of automobiles and electrical appliances was abruptly curtailed, the consumption of these metals dropped precipitously.[5] At the same time, a large amount of new, low-cost, productive capacity arising from projects initiated earlier, and based on improved processes and new discoveries, was just coming into operation. The cartels were unable to control output, stocks piled up and prices slumped disastrously. The 4 cents per pound duty on copper, imposed by the United States in 1932, depreciated currencies, and the efforts of European countries to promote domestic production by means of tariffs, quotas and subsidies, contributed to the unfavourable circumstances. Canada, however, was in a relatively advantageous position. She had a virtual monopoly of nickel and a fixed price was maintained. Nearly all the copper, lead and zinc were produced as by-products of nickel, gold or silver, or vice versa. Furthermore, a number of large capital programs for new and extended mining and refining operations involving the latest low-cost processes were just being completed as the depression broke. Nevertheless, with the fall in copper, lead, zinc and silver prices to less than half of the 1926-29 averages,export values contracted sharply.

In the case of newsprint, 85 per cent of the market was in the United States where the depression was particularly severe. Between 1929 and 1933 United States consumption of newsprint fell 30 per cent while Canadian productive capacity increased by nearly 20 per cent. Under the peculiar conditions of the newsprint market and the financial organization of the Canadian newsprint industry these changes wrought havoc with the price structure. On the supply side there were relatively few and unorganized producers, each with a heavy bonded debt, to whom the maintenance of volume was extremely important.[6] The demand side was dominated by a few powerful organized buyers whose requirements were decreasing. The sellers had to keep up output in order to meet the large fixed charges and avoid bankruptcy. The buyers took advantage of this situation and because of mutual distrust and divergent interests, the Canadian producers were unable to maintain a united front against the united pressure of the buyers. Consequently, the price tended to be forced down

[3] Between 1929 and 1933 the exports of cattle to the United States fell from $13,800,000 to $400,000, of milk and cream from $5,700,000 to $40,000, and of potatoes from $3,800,000 to $700,000. These declines were partially due to the general fall in prices and the decrease in United States consumption, but the higher tariffs were undoubtedly the main cause.

[4] The exports of Canadian lumber and timber to the United States dropped from $58.6 million in 1929 to $13.1 million in 1933.

[5] Between 1929 and 1932 the world consumption of nickel fell 52 per cent, of copper 46 per cent, of lead 37 per cent, of zinc 42 per cent.

[6] Even at the 1929 price the industry had to operate at 80 per cent of capacity in order to meet its full interest charges.

to the out-of-pocket operating costs leaving little or no margin for fixed interest charges. In 1933 the Canadian newsprint industry was working at 53 per cent of rated capacity, the price [7] had fallen nearly 40 per cent (from 1929), and seven companies representing 50 per cent of the total Canadian capacity had defaulted on their indebtedness and were bankrupt.

The depression added greatly to the unfavourable circumstances which have long harassed the Atlantic fishing industry. Beginning in 1930 the world's largest importers of dried cod, Spain, Portugal and Italy, imposed prohibitive trade restrictions which severely curtailed consumption. The purchasing power of Canada's important outlets in the Latin American countries, which was tied to coffee and sugar, was drastically reduced.[8] In these markets there was also increasing competition from the subsidized exports from Europe and from the British, Norwegian and Icelandic producers whose currencies had depreciated further than the Canadian dollar. The trade agreement (1926) with the British West Indies was of little assistance to the Nova Scotia fishermen since Newfoundland enjoyed the same preferences. Furthermore, this treaty which transferred Canadian sugar purchases entirely to Empire sources,[9] practically closed Canada's important outlet for fish in Cuba. The fresh fish trade with the United States and Central Canada suffered considerably from the low prices for substitute foodstuffs, meat, eggs and dairy products. At the bottom of the depression the average of the export prices of Canadian fish was cut in half; the price of dried cod was down nearly 70 per cent.

By 1933 the average of all Canadian export prices (except gold) had fallen 40 per cent from 1929. This drop was nearly one-fifth greater than the fall in the cost of imports and 10 per cent greater than the fall in the general wholesale price level. The important staples of agriculture and Atlantic fisheries suffered the most drastic declines.

TABLE 42.—CANADIAN EXPORT PRICES, 1929-33

—	All Exports (ex. gold)	Wheat	Cattle	Lumber	Newsprint	Copper	Dried Codfish
1929..	100	100	100	100	100	100	100
1930 ..	84	70	87	87	100	75	82
1931..	66	44	59	75	91	50	56
1932..	60	41	46	67	79	38	44
1933..	60	45	37	68	62	44	42

[7] F.o.b. Canadian mills.

[8] Between 1929 and 1933 the exports of raw sugar from Cuba fell from $178 million to $39 million, and coffee from Brazil fell from $327 million to $127 million.

[9] The sugar preferences in the British West Indies Treaty were extended to the other Empire countries.

Effects of Severe Decline in Export Prices—sharp increase in burden of external interest payments, increase in real cost of imports, and drastic curtailment of construction activity

The result of the steep fall in export prices was, of course, to reduce sharply Canada's income from abroad. This reduction, aside from its other far-reaching effects, greatly increased the burden of external obligations. The Canadian economy was like a huge bonded corporation in which the export producers held the equity interest. The large amount of capital required (for railways, canals, power plants, community equipment and factories) for the most profitable exploitation of its domain was most rapidly obtained by the sale of bonds to foreigners. The first charge on the income (exports) consisted of the interest on this bonded debt; the export producers received what was left and, therefore, this remainder rose and fell with the corresponding changes in export prices but at a much faster rate. Hence it was very large when prices were high and extremely small when prices were low. Those farthest out on the long arm of this lever were the farmers, the fishermen, the lumbermen and the miners, in whose rigid costs (freight rates, taxes, mortgage interest and cost of equipment) the fixed interest charges were expressed.

In 1930 about 40 per cent of all the capital invested in Canadian business (excluding farms) and government securities was owned abroad. Over one-half of this total Canadian capital was in the form of bonded debt of which about two-fifths was held in Great Britain and foreign countries. Since the residents of other countries had provided such a substantial part of our total capital, they naturally had a substantial claim on our total income. These claims could be met only by the exports of goods and services, the prices of which would determine the weight of the burden. At the bottom of the depression this burden had increased by 40 per cent. In 1928-29 external interest obligations and dividends absorbed less than one-sixth of the total receipts from the exports of goods and services; in 1932-33 they took one-third. During the former period over $1,500 million was left annually after interest and dividend payments; in 1932-33 this had fallen to less than $580 million. Canadians had lost one billion dollars of income from abroad with which they formally bought goods and services from other countries. Furthermore, the real cost of foreign goods had risen. In 1933 nearly one-fifth more of Canadian exports were required to buy the same quantity of imports as in 1929.

TABLE 43.—CANADIAN PAYMENTS AND RECEIPTS FROM ABROAD[a]

(Millions of Dollars)

—	PAYMENTS ABROAD				RECEIPTS FROM ABROAD				
	Interest and Dividends	Net Capital Exports	Available for the Purchase of Commodities and Services	Total Payments[c]	Total Receipts[c]	Monetary Gold + Export − Import	Net Capital Imports	Receipts from Commodity Exports and Tourists[b]	Receipts from Investments Abroad Freight and Other
1928.....	274	82	1,530	1,886	1,930	+ 49	—	1,671	210
1929.....	322	—	1,639	1,961	1,933	+ 37	168	1,516	212
1930.....	348	—	1,276	1,624	1,653	− 36	315	1,193	181
1931.....	330	—	826	1,156	1,116	+ 33	36	902	145
1932.....	301	11	610	922	891	+ 3	—	775	113
1933.....	263	32	559	854	844	+ 6	—	731	107

[a] Compiled from *The Canadian Balance of International Payments*, 1939, The Dominion Bureau of Statistics, Tables 40-51.
[b] Includes exports of non-monetary gold.
[c] The differences between total receipts and payments are due to errors and omissions in the estimates.

An immediate effect of the slump in export prices was the drastic curtailment of construction activity. A large part of the capital investment of the twenties was directly concerned with increasing the capacity and efficiency of the export industries, i.e., railways, hydro-electric power, pulp and paper plants, development of non-ferrous metal mines, etc. When the profitability of these industries was sharply reduced the incentives to embark on new ventures disappeared. The value of construction contracts awarded in 1933 was one-sixth as large as in 1929 and nearly two-thirds of the thousands of workers formerly engaged in construction were out of work.

Great Disparities in Incidence of Depression—burden fell on unemployed, primary producers and investors in equities; effects of immobility, specialized activity, rigidities of interest and wages, monopolistic conditions, tariffs

The impact of the loss of export income fell most directly upon the export producers and the construction and engineering trades. From these it spread in widening circles throughout the economy.

The manner in which the losses were distributed, however, was anything but uniform. The unequal incidence of the burden on the different groups and regions in the country was the outstanding feature and the basis of the most serious problems arising out of the depression. The extent to which the disturbances in one sector of the economy may be shifted to others depends upon the flexibility of prices and costs and the mobility of labour and capital. In these respects the Canadian economy is highly rigid. Canadian economic life rests on the specialized exploitation of a few natural resources whose products are exchanged in the international market for the many manufactures, raw materials, and services which enable Canadians to enjoy a high standard of living. When the export markets shrink the climate and limited variety of resources preclude the development of alternative occupations. The huge amounts of capital in the export industries cannot be transferred to other uses. Furthermore, much of the capital is in the form of fixed commitments. Over one-fifth of all the capital in Canadian private industry is bonded debt. Nearly 30 per cent of the capital invested in the farm property of the Prairie Provinces is money borrowed in one way or another at contractual interest rates. In addition there are the outstanding debts of Canadian governments which amount to the substantial figure of $707 (1937) per capita. Altogether Canadian industry and governments have to meet a fixed interest bill of about $500 million annually. The decline in the cost of living substantially increased the real value of such fixed interest payments but none of the depression burdens could be shifted (except by taxation on a national scale) to the recipients of this income without default and bankruptcy.[10]

[10] Reductions in interest charges are possible by refunding and voluntary conversions but these are dependent upon special circumstances and usually take place with a considerable lag.

TABLE 44.—FIXED INTEREST CHARGES AND THE NATIONAL INCOME, 1929-33

—	The National Real Income[a]	The real value of the average rate of interest paid on Government debt[b]	Bond interest and interest on farm mortgages received by Canadian individuals as a percentage of the National Income[c]	Bond interest and interest on farm mortgages received by Canadian individuals and paid abroad as a percentage of the National Income[c]
	1929 = 100	1929 = 100	%	%
1929.....	100	100	3·1	6·5
1930.....	89	100	3·8	7·9
1931.....	83	108	4·5	9·6
1932.....	74	119	5·6	11·6
1933.....	72	123	6·2	12·6

[a] The indices of the national money income divided by the Dominion Bureau of Statistics indices of the cost of living.
[b] The indices of the average rate of interest paid on the outstanding debts of the Dominion and the provinces, divided by the Dominion Bureau of Statistics indices of the cost of living.
[c] Includes investment income of life insurance companies accruing to policy holders.

TABLE 45.—THE INCIDENCE OF THE DEPRESSION, 1929-33

—	The National Real Income per capita[a]	Real wages, mainly in the skilled trades[b]	Average annual real salaries and wages received by all employed wage-earners[c]	Number of unemployed wage-earners[d]	Purchasing power of farm products in terms of manufactured goods	Real value of dividends received by stockholders[e]
	1929 = 100	1929 = 100	1929 = 100	(000)	1929 = 100	1929 = 100
1929.....	100	100	100	107	100	100
1930.....	87	101	97	341	87	111
1931.....	81	108	102	442	70	102
1932.....	71	111	105	639	64	77
1933.....	68	111	102	646	67	72

[a] Indices of the national money income per capita divided by the Dominion Bureau of Statistics indices of the cost of living.
[b] Dominion Department of Labour indices of wage rates divided by the Dominion Bureau of Statistics indices of the cost of living.
[c] Annual average salaries and wages were obtained by dividing total salaries and wages paid out as estimated in the Commission's study on National Income by the total number of wage-earners employed receiving salaries and wages as estimated by the Dominion Bureau of Statistics. (*Canada Year Book*, 1939, p. 812). The resulting averages were converted to indices and divided by the Dominion Bureau of Statistics indices of the cost of living.
[d] Dominion Bureau of Statistics estimates, *Canada Year Book*, 1939, p. 812.
[e] Indices of dividends paid to Canadian stockholders by Canadian and foreign corporations, divided by the Dominion Bureau of Statistics indices of the cost of living.

While fixed interest charges are an onerous burden during periods of declining values, rigid wage rates are perhaps far more productive of strains and dislocations since they comprise a much larger share of the total cost of production. Wage rates and salaries, particularly in the skilled and semi-skilled trades and professions, have everywhere become extremely inflexible. The maintenance of wages during periods of shrinking purchasing power resulting from the fall in export incomes or the collapse of investment means that prices cannot be reduced to the levels at which the product of industry at full employment may be sold. The necessary adjustment is, therefore, made by a reduction in the volume of output which deprives a large number of workers of their jobs. Thus the burden is thrown on the unemployed, who have completely lost their income, and on the primary producer, the prices of whose products have fallen sharply, while the things he purchases (services and manufactured goods) have not.

On the average, employed wage-earners and persons receiving salaries suffered no reduction in real income. Most of the workers in the skilled trades, the professions and the white-collar occupations who retained their jobs actually enjoyed a considerable improvement in their real position. The losses were completely borne by the 500,000 to 600,000 unemployed who depended on past savings and private or government charity, by the farmers and other primary producers, and by the investors in common stocks, and others who received the profits of industry and trade.

While fixed interest charges and the inflexibility of wages were important factors in the rigid prices and costs which spread the losses of the depression so unequally, they were by no means the only ones. Business organization has everywhere become increasingly monopolistic. In Canada industry, commerce and finance are highly centralized and in many branches a few enterprises dominate the field. Under such conditions the maintenance of prices is possible in the face of declining demands. The monopolistic producers may consider that they are better off by selling less at higher prices than by selling more at lower prices. Consequently, the burden tends to fall upon the workers who lose their jobs through the reduction in output and on the exporters whose costs are thus held rigid while their prices on world markets are sharply reduced.

An important condition of monopolistic practices and of the rigidity of certain prices is the absence of foreign competition. Such competition is limited mainly in two ways: artificially, by protective tariffs and import regulations; naturally, by the costs of

transportation and the necessity for rendering the services or producing the commodities on the spot as in the case of trade, banking, professional services, government services, the production of bread, milk, etc. Industries which are artificially or naturally sheltered, selling only or principally in the domestic market, can adjust their prices to costs, whereas the exporters have to adjust their costs to the prices they can get on the world market. Since the prices of the protected industries determine in part the costs of the exporters, it is clear that the latter are in an unenviable position.

The Canadian manufacturing industry, except that portion of it engaged in the processing of export staples and certain naturally sheltered branches, grew up behind a protective tariff. The steep increase in duties during 1930 and 1931 and the intensification of administrative restrictions greatly widened the scope for the maintenance of prices. The exporter and the raw material producer could get little relief from a reduction in costs forced by external competition.

TABLE 46.—INDICES OF SHELTERED AND EXPOSED PRICES

1929 = 100

—	Cost of Living[a]	Prices of Tariff Protected Manufactured Goods[b]	All Wholesale Prices[a]	Export Prices[a]	Farm Prices[a]
1929.....	100	100	100	100	100
1930.....	99	93	91	84	82
1931.....	90	88	75	66	56
1932.....	81	86	70	60	48
1933.....	78	86	70	60	51

[a] Dominion Bureau of Statistics Indices.
[b] Includes all iron and steel products, manufactured textiles, boots and shoes, chemicals and allied products, glass and its products, cement, gasoline and pottery.

The higher tariffs imposed early in the depression were effective in diverting an important part of total demand from the foreign to the home producer. Consequently the Canadian manufacturer had a considerable cushion against the contracting market. Total salaries and wages in the tariff-protected manufacturing industry fell proportionately much less than earnings in many other occupational classifications.

The naturally sheltered industries and occupations were even more thoroughly shielded against the losses of the slump. The costs of many professional and personal services, and of the distributive and administrative overhead of the country, could not be sharply reduced. With the decline in the cost of living, most of those engaged in these services were better off in 1933 than in 1929. Far from assuming any considerable part of the depression burdens, they received a considerable increment in their share of the national income.

TABLE 47.—THE UNEQUAL INCIDENCE OF THE DEPRESSION ON THE EXPOSED AND SHELTERED GROUPS, 1929-33

—	Net Income of Farmers as a percentage of National Income[a]	Salaries and Wages in Selected Export Industries as a percentage of National Income[b]	Sub-total Exposed Industries	Salaries and Wages in Manufacturing mainly dependent on Tariff Protection as percentage of National Income[c]	Salaries and Wages in the Naturally Sheltered Industries and Occupations as a percentage of National Income[d]	Sub-total Sheltered Industries
	%	%	%	%	%	%
1929.....	15	8	23	14	29	43
1930.....	10	8	18	15	31	46
1931.....	6	7	13	15	33	48
1932.....	5	7	12	15	35	50
1933.....	7	7	14	15	35	50

[a] It should be noted that an important cause of the steep decline in agricultural income was the drought in the Prairie Provinces. However, in 1932, when agricultural income reached its lowest point, the crop on the Prairies was the second largest in history.
[b] Includes salaries and wages in agriculture, logging, primary mining, flour mills, fish curing and packing, pulp and paper, saw-mills and non-ferrous metal smelting and refining.
[c] Salaries and wages in all manufacturing, excluding central electric stations and the industries included in [b].
[d] Includes salaries and wages in transportation and communication, merchandising, government and education, banking, insurance and the professions.

Another important influence determining the incidence of the depression was the differing behaviour of the demand for capital and consumers' goods. One of the main factors in the collapse of the boom was the sharp curtailment of construction activity. The undertaking of large projects virtually disappeared, and the building of houses, the purchase of machinery and equipment, and normal maintenance and repair expenditures, were drastically reduced. In the psychological atmosphere of the depression everything that was not immediately necessary was postponed. Hence the industries producing the goods required for capital investment suffered a severe reduction in demand. On the other hand, the consumption of food, clothing, fuel, etc., could not be substantially cut down regardless of the uncertainty, lack of confidence or shrinkage of income. The industries producing consumers' goods were thus able to maintain a relatively high level of output. The

closer the industry is to supplying the basic necessities of life, the more constant is the demand. At the other extreme, consumer buying of luxuries, semi-luxuries and durable goods such as furniture, automobiles and electrical appliances, is almost as unstable as investment. The greater the proportion of the national income which is devoted to the purchase of the latter classes of commodities, the greater are the possible economic fluctuations. Canada, with her high standard of living, was especially vulnerable in this respect. On the whole, however, the consumers' goods industries bore relatively little of the depression burdens.

TABLE 48.—INDICES OF THE PRODUCTION OF CONSUMERS' AND PRODUCERS' GOODS, 1929-33

—	Consumers' Goods[a]	Producers' Goods, (mainly capital goods)[a]
1929	100	100
1930	93	83
1931	89	62
1932	82	46
1933	84	48

[a] Dominion Bureau of Statistics Indices.

Disparities in Incidence of Depression on Different Regions—loss of income most severe in Western Canada, declines range from 72 per cent in Saskatchewan to 36 per cent in Nova Scotia

The incidence of the depression on the various regions and provinces was determined by their relations to the factors discussed above. Owing to the rigidity of wages, fixed interest charges, monopolistic practices, the effects of protective tariffs, the importance of highly specialized activity, and the immobility of capital and labour, there was no reason to expect anything approaching a uniform distribution of losses.

The depression burdens which could be shifted only with great difficulty, in the end fell almost completely on the exporters, the unemployed, the investors in defaulted farm mortgages, and the receivers of income from equities. In Central Canada and Nova Scotia, where the amounts obtained from salaries and wages in tariff-protected and naturally sheltered occupations and from fixed interest investments were relatively the greatest, the total incomes fell least. In Western Canada, where the proportions of the receipts from export production were the highest, the total incomes fell most. The Prairie Provinces, almost wholly dependent upon the export of wheat, suffered the most severe declines.

TABLE 49.—DEPRESSION DECREASES IN NET MONEY INCOME

—	Percentage Change 1932-33 Average Income from 1928-29 Average Income
	%
Agriculture—Prairies	− 94
Fisheries	− 72
Salaries and Wages in Construction	− 68
Agriculture—Eastern Canada and British Columbia	− 64
Salaries and Wages in the Exporting Industries[a]	− 50
Total National Income	− 41
Dividends received by Stockholders	− 40
Salaries and Wages in the Protected Manufacturing Industries[b]	− 37
Income of Small Business men and the Professions—Individual Enterprisers	− 36
Salaries and Wages in the Sheltered Occupations	− 30
Miscellaneous Income[c]	− 18
Bond Interest, Property Income from Life Insurance and Interest on Farm Mortgages received by Individuals	+ 13

[a] Includes salaries and wages in agriculture, logging, primary mining, flour mills, fish curing and packing, pulp and paper, saw-mills and non-ferrous metal smelting and refining.
[b] Salaries and wages in all manufacturing excluding central electric stations and the industries included in [a].
[c] Includes net income from urban housing and municipal public welfare and education.

TABLE 50.—THE DECLINE IN PROVINCIAL PER CAPITA INCOMES, 1928-29 TO 1933

—	1928-29 average $ per capita	1933 $ per capita	Per-centage Decrease
Saskatchewan	478	135	72
Alberta	548	212	61
Manitoba	466	240	49
Canada	471	247	48
British Columbia	594	314	47
Prince Edward Island	278	154	45
Ontario	549	310	44
Quebec	391	220	44
New Brunswick	292	180	39
Nova Scotia	322	207	36

The large disparities shown in the above table are striking testimony of the extreme differences in the incidence of the depression and of the great problems of public finance and economic policy which they created.

3. The National Economic Policies During The Depression

The policies of the Dominion had played a significant part in determining the direction of Canadian economic development and in shaping the structure of the economy. The costs and markets in every region and industry in the country had been basically affected by the conditions of transportation and by the protective tariff. The nature and operation of these policies were obviously important factors in the incidence and course of the depression.

The policies of Western settlement, all-Canadian transportation, and industrialization by protective tariffs had been designed to promote, and to function under the influences of, expansion. They had set the stage and in some measure had provided the incentives for the activities of private enterprise which were counted on to bring general prosperity and build an economically integrated and united nation. The success of the whole scheme depended upon the availability of extensive virgin resources and expanding foreign markets. In 1930 when the external influences became extremely unfavourable and the supply of new land suitable for agriculture had become virtually exhausted, the old policies became largely negative. They were important conditions under which the economy had grown up and under which individuals had obtained their opportunities and produced their incomes and thus could not be sharply reversed without severe repercussions. On the other hand, the nation's prosperity could no longer be maintained simply by settling immigrants and subsidizing the construction of railways.

The depression brought a set of problems almost entirely new in Canadian experience. Their solution or amelioration required new departures in federal policy. Broadly there were two alternatives. One was to try to *counteract the factors which were responsible for the slump* by attempting to maintain export values, to keep up activity in construction, and to prevent prices and costs from getting too far out of line. This would have involved what then appeared to be risky and unorthodox monetary measures. The other was carefully *to avoid risky and unorthodox monetary measures and to endeavour to maintain income in the sheltered and protected sectors of the economy* by drastic restrictions against imports, by following "sound" financial policies which would maintain confidence, preserve the public credit both internally and abroad, and thus facilitate the operation of the natural forces of recovery. While there could be no absolute certainty about which course would hold the total national income at the higher level, the latter would widen the disparities in the losses falling on the various groups (because of the relative increase in exporters' costs, the increase in disparities between price levels and the harmful effects on foreign markets) and hence would greatly increase the transfers of income which would have to be made through the public finance system to support the casualties of the unequal incidence of the depression. The second alternative describes briefly the policies which were actually adopted by the Dominion.

Monetary policy—difficulties and uncertainties of currency management in Canada, maintenance of equilibrium in balance of payments by tariff and orthodox monetary policies, failure to shield exporters against drop in external prices

The failure to take any positive steps to soften the impact upon the exporters or to forestall the wide disparities which developed arose to a considerable extent out of the economic difficulties and uncertainties which were involved. It must be emphasized that this review is made with the wisdom of hindsight. It is obvious that after the event many things become clear which were not so before. The most direct and general attack on the problem was in the field of monetary policy, where the issues, at least at that time, were particularly obscure. Should the country in the confident security of monetary orthodoxy undergo the full effects of a deflation communicated from abroad, or should it assume the risks connected with opposing that deflation by monetary expansion? The effects of the rapidly shrinking purchasing power of the exporter could have been lessened by the creation (on a sufficient scale) of purchasing power connected with the financing of temporary government deficits by borrowing the otherwise unused savings of individuals and by the expansion of bank credit. Among other things this would have tended to lower the value of the Canadian dollar in terms of foreign currency and thus to raise the Canadian dollar prices of goods sold abroad. This or some other type of monetary expansion and exchange depreciation, carried out with deftness and restraint, could have done much to prevent the drastic disequilibrium between the prices of primary products and costs and to avoid many of the gross inequities in the incidence of the depression. It is probable that the better balance between the incomes of different groups

and regions in the economy and between prices and costs brought about in this way, would have maintained the national income at a higher level and lessened the degree of unemployment. Because of the importance of fixed interest charges and the rigidity of wages (in both cases in Canadian currency) it would have been easier to resist the drop in exporters' prices (in Canadian dollars) than to force a reduction in their costs by allowing them to be fully exposed to external deflationary influences.

Early in the depression certain representatives of Western agriculture, seeking an escape from the pincers of falling prices and inflexible costs, urged upon the Dominion a policy of monetary expansion and currency depreciation. The proposals (the financing of public works with Dominion notes) were loosely formulated and suggested straight inflation. The Government was firmly opposed to such measures and announced its resolve to maintain adequate gold coverage for the currency.[1] The view that unbalanced budgets, financed by the expansion of bank credit and the issue of fiduciary currency, were desirable in certain contingencies, was regarded as rank heresy. The adoption of such measures was held as a sign of extreme weakness which should only be resorted to as a last effort to stave off complete collapse. The deliberate increase of purchasing power or the depreciation of the exchange in this manner, merely to counteract shrinking incomes from a temporary collapse of export prices or investment, was not regarded as a sufficient justification. This palliative was considered worse than the disease; it would shake confidence, harm public credit, impede the necessary readjustments, and hence merely delay recovery. These views of the Government faithfully reflected the most widely held opinions of businessmen, bankers and professional economists. The depreciation of the exchange, either directly or because of unorthodox monetary expansion, unless forced by extreme circumstances, was regarded as an act of "international immorality", carrying with it the stigma of default. For Canada, which was so heavily dependent on international trade and foreign credit, such action, it was thought, would be fraught with the most dire consequences. Canada, it was argued, should do nothing to weaken the confidence of either the internal or foreign investor; it should do everything in its power to keep the economy functioning without monetary manipulation and thus facilitate the natural forces of readjustment and hasten the return of prosperity.

At the onset of the depression the Canadian foreign exchange position appeared to be extremely weak and the Canadian dollar seemed headed for depreciation. At the height of the boom the Government found it necessary to place restrictions upon the export of gold which was rapidly flowing out of the country. At the same time the foreign assets of the banks were being quickly depleted.[2] The principal factors in the pressure on the country's liquid reserves were the large outflows of capital connected with the extensive participation of Canadians in the New York stock market and the credit expansion of the banks who were able to maintain their cash reserves in spite of the loss of gold by borrowing Dominion notes under the Finance Act. But when the test came in 1930 the Canadian dollar did not depreciate. Canada, unlike other debtor countries, had not over-borrowed in the immediately preceding period; in fact she was a net capital exporter during all but the last year of the boom, and the economy was therefore not geared to a high rate of capital imports. In other debtor countries cessation of capital imports had had disastrous consequences and Canada was fortunate in not being vulnerable in this respect. In addition, Canada had an ample reserve of credit in New York which was a source of considerable strength. Much capital was required for the completion of projects initiated during the boom. The Dominion required funds for uncompleted transportation improvements, the provinces for public utilities and highways, the railways for branch lines, and private corporations for hydro-electric power developments, paper mills and mining projects. In 1930 Canada was able to sell abroad $400 million of new securities, the greatest amount in its history, with the exception of 1913. During the same year, maturities of externally held debt which had averaged $176 million annually since 1924, fell to $110 million. With the collapse of the New York stock market boom the outflow of capital for the purchase of foreign securities virtually ceased. Consequently, net capital imports rose to $315 million, nearly double those of 1929, and the highest since 1914. This large amount of foreign credits was more than enough to meet the deficiency in the exports of goods and services over the payments for imports and interest. There was thus no scarcity of foreign exchange and no reason for the Canadian dollar to depreciate. In fact, there was a surplus

[1] The country, however, had been technically off the gold standard since the end of 1928, when the Government placed unofficial restrictions on the free export of gold by the banks.

[2] During 1928 and 1929 the total of the exports of monetary gold and the sale of foreign assets of the banks amounted to $136 million and $125 million respectively.

of foreign funds available for the importation of $36 million of monetary gold which greatly eased the cash position of the banks and enabled them to repay nearly all of their borrowings under the Finance Act.

The external position of Canada during 1930 was in sharp contrast to that of Australia and Argentina, its principal competitors in the export wheat market. The ability of both these countries to borrow abroad on long-term came to an abrupt end early in 1929. When in 1930 the value of their exports fell by one-third they were unable to muster, as Canada did, sufficient foreign exchange to fill the gap in their balances of payments. There was thus severe pressure on the exchanges. At first Australia tried energetically to prevent depreciation by restricting imports and by mobilizing its liquid reserves and using them freely for the maintenance of the currency at par. During 1930 Australia lost over $100 million of gold and liquid foreign assets.[3] Despite this large effort the exchange could not be held and by the end of January 1931, the Australian pound had depreciated to 23 per cent below its former gold parity.

Argentina departed from gold in December 1929, when the country's gold reserves were still very large.[4] But the inelasticity of the currency system, the large amount of unfunded government obligations held by the banks, and continued government deficits made it extremely difficult to deflate the credit structure to the extent required for the maintenance of the gold standard. Furthermore, the repercussions of a very large fall in export prices were extremely drastic because of the dependence of the solvency of the financial system on land values and the overwhelming importance of agricultural exports. It was economically impractical, as well as politically inexpedient, to impose the deflationary measures necessary for the maintenance of the exchange. Consequently, the Government permitted the peso to depreciate. Equilibrium in the balance of payments was thus achieved while,

TABLE 51.—THE CANADIAN BALANCE OF PAYMENTS,[a] 1928-34

(Millions of Dollars)

—	1928	1929	1930	1931	1932	1933	1934
Receipts and Payments for Commodities, Services, Interest and Dividends—							
Receipts	1,880	1,728	1,374	1,047	888	838	1,040
Payments	1,804	1,961	1,624	1,156	912	823	961
Surplus (+) or Deficit (−)	+ 76	−233	−250	−109	− 24	+ 15	+ 79
Capital Movements—							
New Canadian Securities Sold Abroad	207	297	400	200	104	134	111
LESS: Retirements of Canadian Securities held Abroad	200	150	110	202	105	166	169
Net Sales (+) or Retirements (−)	+ 7	+147	+290	− 2	− 1	− 32	− 58
Net Purchases (−) or Sales (+) by Canadians of Outstanding Securities held Abroad	−188	−105	− 13	− 24	− 16	+ 51	+ 9
Net Inflow (+) or Outflow (−) of Capital on account of Direct Investments, Insurance transactions, Government transactions, etc.	+ 12	+ 38	+ 38	+ 34	− 32	− 75	− 48
Net Sale (+) or Purchase (−) of Foreign Assets of Canadian Banks	+ 87	+ 88	−	+ 28	+ 38	+ 24	− 19
Total Net Capital Inflow (+) or Outflow (−)	− 82	+168	+315	+ 36	− 11	− 32	− 116
Inflow (−) or Outflow (+) of Monetary Gold	+ 49	+ 37	− 36	+ 33	+ 3	+ 6	− 4
Errors and Omissions in the Estimates	− 43	+ 28	− 29	+ 40	+ 32	+ 11	+ 41
Total Amount of Foreign Exchange (+) or Canadian Dollars (−) required to pay for excess or deficit of imports of commodities, services, etc., over exports	− 76	+233	+250	+109	+ 24	− 15	− 79

[a] Compiled from *The Canadian Balance of International Payments*, 1939, the Dominion Bureau of Statistics, Tables 40-51.

[3] "Through the whole of 1930 persistent efforts were made to keep the rate as near as possible to par with sterling." *Royal Commission on Monetary and Banking Systems*, Commonwealth of Australia, 1937, p. 49.

[4] In December 1929, the Argentine gold reserve was equal to 77 per cent of the total outstanding currency. The amount of currency in circulation was relatively large since the bank cheque system was not highly developed.

at the same time, the money incomes of the exporters and the internal price structure were at least partially shielded against the sharp declines in external prices. The readjustments to the world depression were largely made by alterations in the relations between the Argentine and foreign currencies, rather than by alterations in the internal price and cost levels and the contraction of credit.[5]

The favourable factors which enabled the maintenance of equilibrium in the Canadian balance of payments with relative ease disappeared in 1931 as the world depression deepened. Capital imports virtually ceased, involving a decrease from the previous year of nearly $300 million in available foreign exchange. Exports of commodities and services fell by nearly $330 million. Yet the Canadian dollar did not depreciate until the British deflationary influences and help to keep his prices more in line with his rigid costs. The Government, however, was stoutly opposed to any policy which would result in the depreciation of the currency because it feared (1) that it would be regarded as a form of international default and harm Canada's credit, and (2) that it would lead to inflation.

Although Canadian export prices fell drastically and the problems of readjustment to world deflationary forces were extremely difficult, the balance between the advantages and disadvantages of a policy of currency depreciation was at that time by no means clear. The Canadian balance of payments, in the total size of the transactions relative to the economy, in the number of unstable factors and in the close relations with each of the two most important international financial centres,

Table 52.—Monthly Average Prices of the United States Dollar and the Pound Sterling in Terms of Canadian Dollars, 1930-34

	1930		1931		1932		1933		1934	
	$ U.S.	£	$ U.S.	£	$ U.S.	£	$ U.S.	£	$ U.S.	£
January	1·01	4.92	1.00	4.86	1.17	4.03	1.14	3.85	1.00	5.07
February	1.01	4.89	1.00	4.86	1.15	3.96	1.20	4.10	1.01	5.08
March	1.00	4.87	1.00	4.85	1.12	4.06	1.20	4.13	1.00	5.11
April	1.00	4.86	1.00	4.86	1.11	4.17	1.18	4.23	1.00	5.15
May	1.00	4.87	1.00	4.86	1.13	4.16	1.14	4.50	1.00	5.10
June	1.00	4.86	1.00	4.88	1.15	4.21	1.11	4.61	.99	5.01
July	1.00	4.85	1.00	4.87	1.15	4.08	1.06	4.93	.99	4.99
August	1.00	4.86	1.00	4.87	1.14	3.97	1.06	4.79	.98	4.95
September	1.00	4.85	1.04	4.69	1.11	3.85	1.04	4.84	.97	4.86
October	1.00	4.85	1.12	4.38	1.10	3.72	1.02	4.79	.98	4.84
November	1.00	4.85	1.12	4.19	1.15	3.76	.99	5.08	.98	4.87
December	1.00	4.86	1.21	4.09	1.15	3.79	1.00	5.10	.99	4.89

abandonment of gold in September. The rapid decline in the national income, the curtailment of construction and the higher tariffs of 1930 and 1931 sharply reduced the purchases of foreign goods. The reduction in imports, however, was not sufficient to maintain the balance between the demand for foreign funds and the available supply. It was necessary to sell $61 million of monetary gold and foreign banking assets.

In 1931 the continued fall in export prices and the increasing pressure from the depreciated currencies of Canada's principal competitors in the wheat market gave rise to an agitation in Parliament by independent Western members for the depreciation of the Canadian dollar. Such a policy, they argued, would relieve the farmer from external

is unlike that of any other country in the world. In addition to the highly fluctuating exports and capital imports, there was the unstable element arising out of the peculiar nature of Canada's external indebtedness. Over one-half of the total debt of all Canadian governments and over four-fifths of the bonded debt of Canadian corporations were either solely or optionally payable in a foreign currency.[6] Because of their payment features, these obligations constitute a huge mass of international securities which readily flow back and forth across the boundaries, according to financial conditions in Canada, New York and London.[7] The external obligations of other debtor nations are usually held by the foreign investors until they

[5] The Argentine wholesale price level dropped remarkably little during the depression. Between 1929 and 1933 it fell but 10 per cent compared with about 30 per cent in Canada.

[6] A large portion of these optionally payable securities, however, are held in Canada.

[7] At times the gross amount of transactions in outstanding securities across Canada's border reaches a billion dollars a year.

mature and in the meantime are not likely to be sold back to the borrowing country. Whenever confidence in Canada's credit is seriously weakened, she may be confronted with large-scale dumping of securities into her market. Furthermore, the extensive United States branch-plant investments in Canada give rise to a considerable volume of liquid funds required as working capital or accumulated from profits which, under certain conditions, may be suddenly withdrawn. Normally the movements in the optional-pay securities and the branch plant balances are akin to the operations of a huge equalization fund which smooth out temporary or small scale fluctuations in the exchange. Under some circumstances, however, they constitute a serious danger since anything that causes foreigners to take an extremely pessimistic view of Canadian conditions may precipitate a large withdrawal of capital which might shatter the Canadian financial system and completely destroy Canadian credit, both internally and abroad. The effects on foreign confidence were, therefore, a main consideration in Canadian monetary and exchange policy during the depression. The Federal Government, confronted with the early maturity of hundreds of millions of optional-pay public securities and facing the necessity of financing increasing deficits was inclined to be cautious. Furthermore, any measures leading to the depreciation of the exchange would add to the cost of interest charges and thus heap increased burdens on governments already harassed by falling revenues. Many private corporations, selling mainly in the domestic market, had no means of financing higher debt charges and would have been forced into bankruptcy.[8]

The risks attached to a policy of exchange depreciation or monetary expansion were magnified in the minds of the Government by the absence of any reliable machinery. Lacking a central bank or some other established institution it would not be possible, it was thought, to carry out such a policy in a manner which would command the confidence of either the Canadian or foreign financial community. The proposals to issue fiduciary currency or simply to buy foreign exchange in some undefined way smacked of pure inflation. While these methods would have brought about depreciation of the exchange, the Government was not certain that it could keep either inflation or depreciation within control. In any case, the Government felt that inflation in whatever form or for whatever purpose was neither a cure nor a palliative for the ills of the country.[9]

Because of the dangers and uncertainties which the Government thought were involved in any aggressive monetary measures to combat the deflation, it stuck resolutely to "sound" and orthodox policies. When Britain abandoned the gold standard in September, 1931, it simply allowed the Canadian dollar to find its own level.[10] Thereafter, until the United States devaluation in 1933, the Canadian dollar moved roughly half-way between the United States dollar and sterling with an average discount below the former during 1932 of about 13 per cent and a premium over the latter of 22 per cent. The unpredictable course of sterling, together with the considerations already discussed, restrained the Government from linking the dollar to the pound despite the disadvantages suffered by exporters to the United Kingdom. Having important relations with each of the two principal monetary centres, Canada followed the lead of neither. The position of exporters would have been improved by tying the dollar to sterling but debt charges in the United States would have risen.

After October, 1932, some positive measures were taken to promote easy money and the groundwork was begun for the establishment of a central bank by means of which, among other things, such a policy could be methodically carried out.[11] The Dominion sought to refund as much of its obligations as possible at lower interest rates which, besides reducing the cost of the debt service, tended to lower the whole structure of interest rates. In November, 1932, and again in June, 1934, the Government endeavoured to expand bank cash

[8] Higher debt charges arising out of currency depreciation were not a serious problem in the case of Argentina. Less than one-fifth of the total external debt of Argentina was payable in a foreign currency.

[9] "Much has been heard in recent months about inflation. Some of the advantages claimed for inflation may seem alluring to industries harassed by falling prices and declining turnover. But let the sponsors of inflation never forget that apart from the other difficulties and dangers involved in their program, one inevitable result would be a flight from our dollar, a withdrawal on a large scale of the capital invested by foreigners in this country in the form of securities and bank deposits. There are also to be considered internal reactions to any steps which might impair confidence in a country's currency. Against policies which might lead to such dangers, this government has resolutely set its face." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 5.

[10] "There are some who advocate that our dollar should be tied to sterling at the old parity and still others who criticize what they mistakenly believe to be a policy of pegging our dollar in terms of New York. This is not the time to enter into a discussion of this broad and complicated question. Suffice it for me to say that our dollar has been allowed to find its own level and that as a result it has been fluctuating about half-way between the United States dollar and the English pound. In so doing it may be working out a not unsatisfactory compromise between those of our national interests which would be benefited by close and stable relations with sterling, and those on the other hand which would be seriously harmed by a heavy and fluctuating discount in terms of New York." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 5.

[11] For a more detailed treatment of the Government's efforts to promote easy money after 1932 and of other phases of Canadian monetary policy during the depression, see F. A. Knox, *Dominion Monetary Policy* (1929-34). (Mimeographed.)

by the issue of $35 million and $52·5 million respectively of Dominion notes. The former had involved an equal amount of borrowing under the Finance Act and was not very effective. The latter issue which was used to finance expenditures on public works added substantially to the cash reserves of the banks. By that time, however, the worst had passed. Export prices were rising; the United States had devalued and the Canadian dollar was again at par with sterling. The easy money policy was then very largely a matter of keeping in step with rising business activity and with the easy money policies of the United States and Great Britain.

In view of the possible dangers connected with deliberate currency depreciation, which so greatly influenced the attitude of the Government, it is important to make a general, even if non-quantitative estimate, of the probable gains which exporters would have derived from such a policy. The two main exports, wheat and newsprint, were in the weakest position to benefit. Large surplus stocks and the import restrictions of European countries were unfavourable factors in the case of wheat. Furthermore, the Government's activities in the wheat market introduced an arbitrary and unpredictable element. It is conceivable that depreciation would simply have reduced the Liverpool sterling price by an equal proportion, thus eliminating any improvement in the dollar receipts. However, marketing policies could have been adopted which would have retained a large portion of the benefits of depreciation for the Canadian producer. If the Government had undertaken to depreciate the exchange for the purpose of assisting the exporters, it is reasonable to expect that it would have adapted its marketing policy in accordance with that objective. In any case, the disadvantages of the Canadian producer in competition with the depreciated currencies of Australia[11a] and Argentina would have been reduced.

Newsprint was in a particularly precarious situation. Over-capacity, high fixed charges, and competitive conditions made it extremely unlikely that the producers of this commodity would have benefited from the lower value of the Canadian dollar.

There was a wide range of products, however, whose internal prices would have been improved by the depreciation of the exchange to the level of sterling. Gold, base metals, fish, meat and dairy products, live stock, lumber and exports of manufactures were all in the position to retain the whole or some of the higher Canadian dollar values of foreign currencies. This group of goods constituted about one-half of the total exports. Better prices for these commodities would have been an important influence in reducing the disparities in the incidence of the depression. The immensely important tourist trade would also have benefited considerably as American tourists would have been attracted by the premium on their dollars. It is improbable that the beneficial effects of a better balance between prices and costs in important industries and regions of the country would have been completely offset by the higher costs of imports and increased debt charges. If the increases in the prices of imports were an important limiting factor they could have been compensated for to a considerable extent by a reduction of tariffs without lowering the level of protection previously enjoyed. It is true that the main industry of the most seriously affected region, the Prairie Provinces, would perhaps have gained very little. However, many of their minor products, such as live stock and dairy products, would have benefited and in any case they could hardly have suffered from more favourable conditions in the other exporting areas of the country.

The monetary and exchange policies which were followed rendered the disparities in the incidence of the depression greater than they needed to have been. The decline in the national income was also probably greater. The risks and dangers connected with monetary expansion and currency depreciation were great and a mistaken or careless procedure would undoubtedly have brought the consequences which the Government feared. But a skilful policy, which perhaps was not too much to expect in view of the serious problems of the time, could have avoided them. It would have been possible by any one of a number, or by a combination, of methods, such as restricting the outflow of gold, restraining the contraction of credit, avoiding an increase of protective tariffs, and purchasing foreign exchange, to depress the exchange value of the dollar without causing a wild flight of capital or a serious loss of foreign confidence in Canadian credit. The lack of a central bank or other ready-made machinery was not an insuperable obstacle. A suitable organization could have been readily set up as was done in other countries far less favourably situated.

[11a] "The Australians who appeared before me in London regarded the abandonment of the gold standard early in the depression as having operated to the benefit of the exporting producers more than anything else." *Report of the Royal Grain Inquiry Commission*, 1938, p. 132. See also *Royal Commission on Wheat Flour and Bread Industries, Second Report,* (Australia), 1934-35.

Prior to September, 1931, a policy of currency devaluation was impractical in view of the nature of public opinion and the attitude of the financial community. With the British abandonment of gold, however, the dollar could have been depreciated, directly with sterling or independently, without producing a serious shock to confidence. Had such a course been followed, Canada would have been at least partially shielded against the deflationary influences arising out of the discount on the monetary unit of one of her principal markets. She would also have been spared increased exchange disadvantages in competition with the important group of countries whose currencies fell with the pound.

Tariff Policy—sharp tariff increases and other import restrictions to maintain employment in manufacturing intensified cost rigidities of primary producers and enhanced burden of depression falling on exporters

A positive depression policy of the Federal Government was the attempt to maintain employment in Canadian manufacturing industries by increasing restrictions on imports. The Government announced as a principle that it was unsound to import goods which were or could be produced in Canada as long as Canadian labour and equipment were unemployed.[11b] It argued that a reduction of purchases from abroad would also produce a

TABLE 53.—TARIFF CHANGES, 1928-36

—	Year	Equivalent *Ad Valorem* Tariff Rates [a] (Unweighted Averages)			Ratio of Imports to Gross Value of Production [b]			
		Preferential	Treaty	General	Preferential	Treaty[c]	General[c]	Total
All Manufactures	1928	12	17	21	4	2	20	25
	1933	14	25	30	4	1	8	13
	1936	10	24	30	4	6	4	14
All Textiles	1928	17	23	28	18	7	13	39
	1933	21	39	45	10	2	4	17
	1936	20	41	49	11	4	2	16
All Iron and Steel Products	1928	11	17	19	3	1	51	54
	1933	10	23	25	8	1	24	33
	1936	6	21	25	5	21	8	34
Electrical Apparatus and Supplies	1928	15	23	27	2	—	29	32
	1933	16	30	34	2	—	15	17
	1936	12	29	33	2	14	2	18
Glass and its Products	1928	13	19	22	9	16	47	72
	1933	12	23	26	11	7	38	56
	1936	7	20	25	13	38	16	67
Petroleum Products	1928	9	12	14	—	—	33	33
	1933	10	15	21	—	—	13	13
	1936	7	16	18	—	8	4	12
Leather Boots and Shoes	1928	16	27	29	2	—	4	6
	1933	24	37	43	1	—	1	2
	1936	20	37	43	1	2	—	3
Furniture	1928	18	28	30				
	1933	22	32	49				
	1936	18	31	49				

[a] Unweighted arithmetical averages of *ad valorem* rates and *ad valorem* equivalents of specific rates on each tariff item of manufactured goods imported calculated from duties collected and customs valuations. Since the necessary information was not available dumping duties were not included and no adjustments were made for arbitrary over-valuations. The averages, therefore, tend to understate the tariff increases between 1928 and 1933. See, W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, pp. 90-94.

[b] The value of Canadian production is "gross," i.e., includes cost of materials purchased and the value of imports includes commodities in various stages of manufacture. Hence the absolute size of the ratio of imports to gross value of production does not necessarily measure the relative importance of imports and domestic production. However, *changes* in the ratio from one year to another do show the *changes* in the volume of imports in relation to home production. All that is intended here is to show such *changes* between 1928, 1933 and 1936.

[c] Note that, after the United States Trade Agreement of 1935, the Treaty, and not the General Tariff as previously, applied to most of the non-preferential trade.

[11b] " . . . every import brought into this country, from abroad, represents foreign trade to some other country. Our business is to see that we do not expand the foreign trade of any other country when we ourselves are producing or can produce the goods so imported". Minister of Finance, *Budget Speech*, June 1, 1931, p. 45.

favourable balance of payments, prevent the depreciation of the exchange, and thus help to maintain Canada's credit. Accordingly, during 1930-32 the tariff was sharply raised. Every major secondary industry[12] was granted higher duties and Canada changed from a country of moderate to one of high protection. The averages of the General and Intermediate rates (which applied to over four-fifths of the total imports) on all manufactured goods were raised by nearly 50 per cent. All the important commodities of general consumption were made subject to substantially increased duties. The average of the rates on textiles rose by about one-fourth in the Preferential schedule and by two-thirds in the Intermediate and General. Wool and artificial silk duties were approximately doubled. Tariffs on boots and shoes, furniture, and petroleum products were boosted by about one-half. Virtually every branch of the iron and steel industry received added protection by an increase in duties in the Intermediate and General schedules of approximately one-third.

The raising of tariffs, however, was but one phase of the Government's efforts to reduce imports. During 1930-33 administrative restrictions were greatly intensified. Devices for the exclusion of goods which the regular tariff did not keep out were multiplied and made more effective. The Minister responsible for the administration of customs was given sweeping powers to levy special dumping duties on the basis of arbitrary valuations. The Minister, among other things, was empowered to fix for duty purposes, the value of any imports which, in his opinion, were harmful to Canadian producers. Prior to the Trade Agreement with the United States in 1935, arbitrary valuations were regularly applied to such important items as textile fabrics, rubber footwear, wearing apparel, fruits and vegetables, automobiles, and electrical apparatus which, in many cases, raised the real rates of protection to fantastic heights.[13] In addition to arbitrary valuations the Government also used its power to fix arbitrarily the exchange rate for duty purposes of any foreign currency which had depreciated. Thus, when sterling went off gold, its value for the purpose of calculating the duty on imports from Britain was fixed considerably above the actual rate.[14]

Higher tariffs, administrative restrictions and the increasing weight of specific duties on falling prices, were effective in causing a considerable diversion of demands from foreign to domestic producers. Whereas in 1928 the value of imports of all manufactured goods was equal to 25 per cent of the total gross value of Canadian manufacturing production, by 1933 this ratio had fallen to 13 per cent. The reduction of imports relative to home production was particularly pronounced in the case of textiles, automobiles, electrical apparatus, gasoline, furniture, implements, and machinery—all of which are important items either in the cost of living or the cost of production of primary producers. Employment in the protected manufacturing industry was better maintained than in other branches of goods production (except mining). The decline in salaries and wages paid by the former was appreciably less than the fall in the national income.[14a]

Efforts to check the fall in employment by reduction of imports were helpful mainly to the manufacturing areas of Central Canada and to the coal and iron industries of Nova Scotia. In so far as the relative improvement of incomes in these places was due to the maintenance of prices resulting from higher tariffs, they were harmful to the rest of the country.

For upwards of 40 years there had been no substantial change in the general level of tariff protection. The settlement and development of the Prairie Provinces and British Columbia had been begun and carried to an advanced stage of maturity under approximately the same tariff conditions. Industries, governments and homes had been established with the tariff as one of the given factors, like the climate and the natural resources. It is true that the tariff limited the extent of the development and the rise in the value of the natural resources but it did not deprive either individuals or governments of opportunities and incomes which they had ever actually enjoyed. Nor did it, under conditions of expansion and high mobility, reduce the earnings of capital and labour below what they would have obtained elsewhere in Canada.[15]

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[12] The duties on many agricultural commodities were also raised but in most instances they could have no effect, since for nearly all of these items Canada was on an export basis.

[13] See *Report of the Royal Commission on the Textile Industry*, 1938, pp. 13-16.

[14] "The rates in our tariff schedules were made having in mind parity of exchange. Consequently when the pound sterling became depreciated, it was necessary to value it for purposes of special or dumping duty at $4.40, in order to offset in part the advantage which the British exporter obtained in our markets as a result of the depreciated pound." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 23.

[14a] See Table 49, p. 150.

[15] For a more complete exposition of the nature of tariff "burdens" and the relation of the tariff to Canadian economic development, see W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, Chap. VII.

In the case of the Maritime Provinces, however, the effects were different. The Maritime economy had reached a mature development before the National Policy tariff was adopted. Its introduction (1879) constituted a drastic change in the conditions under which the population and its economic activities had grown up. The higher duties suddenly increased the costs of production of the important export industries. This reduced net incomes and the value of property in these industries below what was already established or what they would otherwise have been. The failure of the Maritimes to expand economically and to prosper to the same extent as the rest of Canada was due to more basic circumstances but the tariff was an important contributing factor. It hastened the decline of the old export industries and retarded the growth of the new. Since many of the local resources were of a marginal character, the restrictions of the tariff to their development for export was a serious disadvantage. The rise of the Nova Scotia coal and iron industries was almost entirely dependent upon protection and bounties but this expansion was not sufficient to offset the losses suffered in other Maritime industries.

Prior to 1930 the protective tariff was not a "burden" on Western Canada in the sense that it lowered earnings of capital and labour below those received in the rest of Canada or reduced the value of investments previously made. The sharp increases of duties and administrative restrictions during 1930-32, however, were entirely different in this respect. The rise in tariffs and the maintenance of the prices of manufactured goods which this permitted brought a relative increase in costs and greatly worsened the conditions under which exporting industries were operating—and this at a time when the prices of their products were falling drastically. The share of exporters in the national income was reduced below what it otherwise would have been, the decline in the value of their property was intensified, and the burden of their debts was increased. The only way in which exporters could adjust themselves to the fall in the prices in foreign markets was by reducing their costs. Since the cost of living and the prices of manufactured goods were everywhere more rigid than the prices of raw materials, costs would have fallen more slowly than exporters' receipts even if the tariff had remained unchanged. The raising of tariffs greatly worsened a situation which already was highly unfavourable. As a result the standards of living were further reduced and the defaults of debt became more general.

The increase in protection widened the domestic market for the Canadian producer and thus helped to maintain employment and income in the manufacturing industry. But had tariffs not been raised the purchasing power of exporters would have been greater, debt defaults would have been less and the expansion of such industries as gold mining and electric power would have been more rapid. It is possible that these circumstances would have contributed just as much to the maintenance of the market for Canadian manufacturers as did the rise in duties, and that the national income would have remained at a higher level. While no definite conclusion can be reached on this point, one thing is clear; the increased restrictions to imports added considerably to the wide disparities in the incidence of the depression on the various industries and regions.

TABLE 54.—COST TO PURCHASERS OF TARIFF PROTECTED MANUFACTURED GOODS[a] IN TERMS OF EXPORT COMMODITIES

1929 = 100

—	All Export Prices	Wheat	Lumber	Livestock	Fish	Non-Ferrous Metals
1929	100	100	100	100	100	100
1930	111	132	107	104	103	114
1931	134	201	118	144	123	135
1932	145	209	130	176	142	145
1933	143	189	125	192	143	132

[a] Includes all manufactured textiles, boots and shoes, pottery, glass and its products, chemicals and allied products, cement, gasoline, and all manufactures of iron and steel.

Some of the disabilities of exporting industries under the higher tariffs were reduced by the Empire Trade Agreements in 1932. The British preferences on lumber, apples, and bacon were valuable. The former two were important to British Columbia and the Maritimes but the agricultural industries in the Prairies got little help. Because of surplus Empire production, the 6 cent preference on wheat was of no assistance. Moreover, the reduction in Canadian duties was not significant in lowering the costs of production of exporting industries generally. Further relief did not come until the Trade Agreement with the United States in 1935. Under this Agreement valuable concessions were obtained for lumber, cattle, fresh and frozen fish, whiskey, and potatoes. The general reduction in tariffs against United States goods, special reductions in the case of farm implements, certain classes of automobiles, electrical apparatus, gasoline, many kinds of machinery, and abolition

of arbitrary valuations on a large list of items were important. However, the average level of the Canadian tariff remained far above that existing prior to 1930.

4. Public Finance, 1930-37

Severe Strain of Unequal Incidence of the Depression on the Decentralized System of Canadian Public Finance—large inter-regional transfers of income by Federal Government

Perhaps the outstanding feature of the great depression in Canada was the enormous strain which was placed on the public finance system. The severity of this strain was closely related to the nature of the economy, the constitutional division of powers and responsibilities, and the economic policies of the Dominion. It must be emphasized at the outset that the nature of the economy made it inevitable that serious public finance problems would have to be faced, whatever economic policies were adopted. The slump in export prices and the consequent worsening in the terms of trade with other countries, the increase in the heavy burden of external debts, and the collapse of investment, made it impossible to escape a sharp reduction in the real national income. The manner in which this reduction was distributed over the various regions, industries, classes and occupational groups was nevertheless highly significant, especially in a federal state. When a country is divided up into a number of parts with distinct economic characteristics, each with separate and independent political authorities responsible for costly government services within their respective areas, the incidence of a decline in the total income is immensely important. If the distribution of the decline is fairly uniform each separate governmental unit could perhaps carry the increasing burdens without great difficulty. If the losses fall very disproportionately upon certain regions, the public finances of some areas may be carried on with relative ease, while others are likely to break down with serious repercussions upon the financial, economic and constitutional structure of the entire country.

It is clear from the review in section 2 of this chapter that the disparities in the impact of the depression on various regions and provinces were extremely great. The controls over the tariffs and monetary conditions were powerful instruments in the hands of the Federal Government for the modification of the unequal incidence. However, the national economic policies which were adopted, whether or not they were wise in view of all the circumstances, did little to improve this situation and in some respects intensified it. In so far as these policies were not used to bring about a more even distribution of losses, the greater was the strain on the decentralized system of Canadian public finance. The larger the decline in the income and the larger the consequent rise in government expenditures in the most unfavourably situated provinces, the more rapidly did local revenues and credit become hopelessly inadequate and the larger was the support which had to be obtained from the Dominion.

The nature and course of the depression in Canada inevitably involved large inter-regional and inter-governmental transfers of income by the Federal Government. These transfers took several forms—assistance to a few severely depressed industries, assistance to all provincial governments to help in financing costs of relief, and special assistance to the most hard-pressed provincial governments to prevent defaults of debt and enable continuation of essential services.

Federal Assistance to Industry—the heavy burden of the overhead costs of the National Railways; assistance to wheat and coal

The most important federal transfers to industry consisted of the payment of the deficit of the Canadian National Railways, the cost of the intervention in the wheat market, and the payment of transportation and other subventions to the coal industry. There were few activities which were more severely affected by the depression and the technical changes of the thirties than that of railway transportation. The Canadian railways, besides being built on a scale which involved a highly optimistic estimate of the future of the country, were heavily dependent upon the large investment and developmental expenditures which expansion to such a future would entail. The factors responsible for the collapse of investment brought both a sharp reduction of revenues and an increase in the burden of carrying over-extended facilities. The drought in Western Canada and the slump in wheat prices struck at the heart of the Canadian railway structure. The design of the transcontinental lines through all-Canadian territory was dependent upon the mid-continental location and the prosperity of the country's principal exporting region. When crop failures and large unsold surpluses reduced the amount of bulk freight to be hauled out and sharply curtailed the more remunerative back-haul of manufactured goods, the

full burden of the tremendous overhead of long connecting lines of railway through unproductive territory was felt. While the drop in investment, the fall in wheat prices and the drought brought a drastic reduction to long-haul bulk traffic in both directions, motor truck competition was rapidly cutting into the profitable high class, short-haul traffic in Ontario and Quebec. Under this combination of unfavourable circumstances railway revenues fell by more than 50 per cent between 1928 and 1933. Over the same period the deficit of the Canadian National Railways, which had to be met by the Federal Government, rose by over $60 million (including interest on government investment and advances), a figure twice as great as the Dominion's share of all relief costs in the latter year.

Railways were unable to bolster their falling revenues by an increase in freight rates and it would have been undesirable, from the point of view of the national income, to do so. In fact, there is a strong argument that certain rates ought to have been reduced as part of the Dominion's economic policies to soften the impact of the depression on exposed groups. However, even with railway freight rates substantially unchanged, the burden falling on the taxpayers rose rapidly. During 1932-34 the Dominion paid nearly 40 per cent of the total transportation costs of all the freight hauled by the Canadian National Railways. This load on the taxpayer was perhaps more in the nature of a transfer to investors than it was a transfer to the users of railway facilities. In the case of the Canadian Pacific Railway and the privately-owned railways of other countries, the depression losses fell mainly upon the owners of railway securities. Such a shifting of losses is not possible under government ownership. Canada had in part forsaken the flexibility of private ownership in favour of government guarantees and government ownership in order to build an economically integrated and united nation and to stimulate nation-wide expansion. These purposes, together with past mistakes, converted an enormous transportation overhead into the inescapable fixed charges of government. This was one of the more important of the many rigidities which so greatly enhanced the difficulties of readjustment to the world depression.

The plight of Western agriculture was quickly recognized. The Federal Government, whose economic policies did little to soften the impact of the depression on the wheat farmer, undertook to alleviate his position by means of public finance. When wheat prices began to fall precipitously in the autumn of 1930, the Dominion guaranteed the initial payment set by the Pools and a General Manager of the Central Selling Agency having the confidence of the Government was appointed to take charge of the carry-over and to market the 1930 crop. In the following year the contract pools were terminated and the initial payment or minimum price system was abandoned. In that year (1931) the Federal Government paid a bonus of five cents per bushel on all wheat marketed.

TABLE 55—EXPENDITURES ON TRANSPORTATION BY THE DOMINION—CURRENT ACCOUNT, 1928-37

(Thousands of Dollars)

—	Canadian National Railway Deficit[a]	Harbours Steamships and Marine	Canals and other Transportation	Total Transportation	Percentage of Total Current Revenues of the Dominion
					%
1928.....	47,788	9,627	15,295	72,710	16·2
1929.....	64,487	11,574	17,554	93,615	21·7
1930.....	86,542	11,044	20,191	117,777	34·1
1931.....	112,186	10,237	14,747	137,170	42·3
1932.....	112,807	8,531	10,377	131,715	44·1
1933.....	109,234	8,419	9,327	126,980	40·6
1934.....	91,160	9,222	10,780	111,162	31·8
1935.....	92,414	10,262	11,960	114,636	31·7
1936.....	71,868	9,115	11,528	92,511	20·9
1937.....	67,635	9,584	11,468	88,687	17·7

[a] Includes interest on government investment and advances.

The bonus was discontinued in 1932 and instead a "stabilization" policy was begun. Throughout the period, 1932 to September, 1935, the Government, through the General Manager of the Central Selling Agency, made large purchases of futures on the Winnipeg Exchange for the purpose of maintaining or raising the open market price at which farmers sold their wheat. While these efforts at times held the Canadian wheat price above comparative world prices, they did not, however, prevent it from falling to disastrously low levels. The attempt to "stabilize" the value of Canada's principal export sold on a shrinking world market was a bold venture. The unsold stocks which accumulated and were held by the Government assumed large proportions and involved an increasingly hazardous risk to the taxpayer. When the Wheat Board was established in the autumn of 1935 and the "stabilization" operations came to an end, the Government had on hand some 205 million bushels of wheat. However, the continuation of the drought in North America, a short crop in the Argentine, and world economic recovery brought a sharp rise in prices during the following year and the Wheat Board was able to sell the whole

of the carry-over in a relatively short period with a small net profit to the Government. The minimum prices set by the Board for the 1935 and 1936 crops resulted in losses of about $12 million.

Although the Government's wheat marketing policy during the depression entailed considerable risks, the total cost to the taxpayer proved in the end to be relatively small—a total of about $20 million (including the five cent bonus) during 1930-37, or less than an average of one cent per bushel over the period. The drastic impact of the depression on Prairie agriculture was not significantly reduced by government assistance.

collapse of investment, the falling markets for exports and the contraction of manufacturing had to be looked after in other ways. Canada had never experienced an unemployment problem of such magnitude. During previous periods of economic depression the problems of unemployment and destitution had usually found their solution in the self-sufficiency of the household, in the solidarity of the family, in the establishment of new homes on the agricultural frontier, in the decline of immigration, and in the increase of emigration to the United States. By 1930 such opportunities for self-reliance and methods of adjustment had all

Table 56.—Total Relief and Other Public Welfare Expenditures

(Millions of Dollars)

—	Relief[a]	Old Age Pensions	Other Public Welfare				Total Relief and Other Public Welfare	Percent of National Income
			Dom.	Prov.[b]	Mun.	Total		
								%
1928	—	1.9	6.2	21.3	24.5	52.0	53.9	1·2
1929	—	3.5	6.7	22.8	26.4	55.9	59.4	1·3
1930	18.4	11.8	7.6	24.4	28.3	60.3	90.5	2.2
1931	96.5	16.2	6.4	24.7	28.5	59.6	172.3	4.9
1932	95.0	16.4	5.6	24.7	28.6	58.9	170.3	6.0
1933	97.9	16.7	5.4	23.8	28.9	58.1	172.7	6.6
1934	158.5	20.0	5.3	26.5	30.8	62.6	241.1	8·4
1935	172.9	22.8	6.2	26.5	32.7	65.4	261.1	8·4
1936	160.3	29.6	6.6	28.5	35.4	70.5	260.4	7·6
1937	165.1	38.9	6.8	34.8	35.6	77.2	281.2	7·3

[a] Includes all expenditures on relief, *i.e.*, agricultural, public works, direct and miscellaneous.
[b] Less refunds from municipalities.

The financial help received by the coal industry from the Federal Government was important. The transportation subventions for the movement of Canadian coal to Central Canada were started in 1928 but they did not have much effect until the thirties. These subventions together with the bonuses to Canadian coal used for coking, which were begun during 1930-32, became a considerable factor in the provision of markets. In 1936 the total subsidies received by the coal mines in Nova Scotia amounted to about 15 per cent of the total wages paid by the industry.

Federal Assistance to Provinces—municipal-provincial revenues hopelessly inadequate to finance the whole cost of relief

The problems arising out of the wide disparities in the incidence of the depression were dealt with to only a minor extent by the federal transfers to industry. The destitute wheat farmers, the wage-earners who were thrown out of work by the

but disappeared. The livelihood of hundreds of thousands of citizens seemed to be entirely dependent upon public charity. The cost had to be met through large transfers of income from the employed to the unemployed and from one region to another by means of taxation and government borrowings.

The constitutional responsibility for unemployment relief rested with the provinces. The municipalities, however, were generally regarded as primarily responsible since up until this depression it had been seldom necessary to recognize the distinction between cyclical mass unemployment and "poor relief". The conditions which arose after 1930 soon demonstrated that provincial and municipal responsibility could not be rigorously insisted on in practice. The relief problem related broadly to two quite different situations—the prairie wheat farmers stricken by drought and ruinous prices, and the unemployed wage-earners who tended to concentrate in large urban centres and in single-industry towns. It became clear that neither of these situa-

tions could be dealt with on the basis of local responsibility. The municipalities in the drought area which had lost the whole of their income could not maintain existing essential services, much less pay out large sums to meet the operating costs of the farms. Real estate values in many urban centres would have collapsed completely under the taxation and debts necessary to take care of the local concentrations of unemployed. However, even if the relief burden had been uniformly distributed over all the municipalities of the country it would have been necessary to increase tax collections from real estate by 50 per cent. This was quite impossible.

assistance of the Dominion with its powers of taxation and borrowing was essential. When the problem became acute in 1930 the Dominion began the temporary arrangements for extending financial help to the provinces which were continued throughout the depression. The constitutional responsibility of the provinces (and their municipalities) was still adhered to in form. The Dominion undertook merely to assist the former because of the "extraordinary conditions" and because the problem had "become so general . . . as to constitute a matter of national concern". Administration and initiation of relief projects remained the responsibility of the provinces and

TABLE 57.—THE BURDEN OF RELIEF ON THE PROVINCES AND THE MUNICIPALITIES 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	492	479	480	479	484	508	530	558
Total Mun.-Prov. Current Expenditures[a] excluding Relief	491	492	490	479	482	485	483	514
Surplus available for Relief or **Deficit**	1	**13**	**10**	—	2	23	47	44
Total Relief Costs Expended through Mun.-Prov. Agencies	17	92	92	90	141	134	134	152
Deficiency of Mun.-Prov. Revenues	**16**	**105**	**102**	**90**	**139**	**111**	**87**	**108**
Less Share of Relief Assumed by Dominion	3	34	34	28	43	41	52	55
Mun.-Prov. **Deficit**	**13**	**71**	**68**	**62**	**96**	**70**	**35**	**53**

[a] Including municipal sinking fund contributions and debt retirement.

The relief costs could only be met with the wider revenue and credit sources of the senior governments. The resources of the provincial governments, however, were not by themselves sufficient. Over the whole period 1931-37 the relief expenditures amounted to more than 25 per cent of the total municipal-provincial revenues. In nearly every province during the early thirties these revenues fell short of the requirements for ordinary purposes. There were distressing deficits even before anything had been provided for relief. In not one province in any year following 1930 did the municipal-provincial revenues left over after provision for ordinary services meet the total cost of relief. The amount of borrowings necessary to pay for the whole of the remaining requirements would have bankrupted most of the provinces and municipalities in the country.

The magnitude of relief costs hopelessly exceeded the financial capacities of the provinces and the municipalities. During the eight-year period their combined revenues fell short of total relief and current expenditures by over $750 million. The municipalities. Aside from its own public works programs and relief for unemployed single transients, the Dominion simply gave grants-in-aid to help finance the expenditures of other governments. In this manner the federal authority assumed about 40 per cent of the total outlays on relief during the 1930-37 period. In addition it loaned $106 million to the four Western Provinces to enable them to meet their portions of the cost.

The problem of financing sharply rising outlays for relief would have been difficult enough had the costs fallen evenly upon the various sections of the country. The extreme differences which occurred, however, greatly aggravated the situation. The wide disparities and the regional incidence of the depression had, as a consequence, large variations in the incidence of the burden of relief and other welfare costs upon the several provinces.

The costs of relief varied inversely with the ability to meet them. In Western Canada, where incomes fell most rapidly, relief costs were relatively the highest. The weight of the burden in Saskatchewan, the Province most severely

affected, was about five times as great as that in the Maritimes and Ontario, the Provinces least affected. Total relief expenditures during the eight-year period amounted to nearly two-thirds of the total municipal-provincial revenues in Saskatchewan compared with about one-fifth in the Maritimes and Ontario. A burden with such extreme variations in its incidence could not be entirely carried with local resources. The Dominion not only had to come to the aid of all the provinces, but it had to help some provinces more than others. It was necessary to use the national powers of taxation and borrowing to transfer income from one region to another. The greater the disparities in the incidence of the depression and the greater the failure to use national economic policies to reduce these disparities, the larger were the transfers which had to be made.

TABLE 58.—DISPARITIES IN THE BURDEN OF RELIEF ON THE VARIOUS PROVINCES, 1930-37

—	Ratios of Total Relief Costs to Total Provincial Incomes	
	Relative Severity of Burden-Index of Ratios-National average = 100	Percentages[a]
		%
Saskatchewan	367	13·3
Manitoba	115	4·2
British Columbia	100	3·6
Alberta	100	3·6
All Provinces—National Average	100	3·6
Quebec	90	3·2
Prince Edward Island	76	2·8
Ontario	76	2·7
Nova Scotia	70	2·5
New Brunswick	67	2·4

[a] Percentage of total relief expenditures in the province to total provincial income.

We shall now examine the financial situation which developed in each of the provinces.

Prince Edward Island

Relief expenditures in Prince Edward Island, the most rural province in Canada, were relatively small. There were no large industries or urban concentrations in which mass unemployment could arise. The self-sufficiency of the farm household and the farm family was still an important feature of the economy. Consequently per capita costs for relief of unemployment were the lowest in Canada. Over four-fifths of the expenditures incurred for this purpose were devoted to public works instead of direct relief. This outlay was more of an effort to use idle labour for the provision of community facilities rather than an unavoidable expense for the relief of destitution. While the total expenditures were small compared with those of the rest of Canada, they nevertheless weighed heavily upon the finances of the Province which had no large incomes nor large accumulations of wealth. Virtually the whole of the provincial-municipal share of the relief costs were borrowed, and this added nearly 50 per cent to governmental debts during the period, 1930-37. This increase in the deadweight load placed a considerable strain on the meagre revenue sources.

TABLE 59.—PRINCE EDWARD ISLAND—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	1.58	1.56	1.63	1.64	1.67	1.79	1.95	2.06
Total Mun.-Prov. Current Expenditures[a] excluding Relief	1.55	1.79	1.58	1.61	1.76	1.97	1.76	1.92
Surplus available for Relief or **Deficit**	.03	**.23**	.05	.03	**.09**	**.18**	.19	.14
Total Relief Costs expended through Mun.-Prov. Agencies	.03	.32	.24	.06	.41	.94	.62	.58
Deficiency of Mun.-Prov. Revenues	—	**.55**	**.19**	**.03**	**.50**	**1.12**	**.43**	**.44**
Less Share of Relief Assumed by Dominion	.02	.18	.05	.02	.22	.29	.32	.18
Mun.-Prov. **Deficit** or Surplus	.02	**.37**	**.14**	**.01**	**.28**	**.83**	**.11**	**.26**

[a] Including municipal sinking fund contributions and debt retirement.

Nova Scotia

Although the prices of Nova Scotia's exports fell drastically the burden of relief was relatively small. The nature of the economy prevented the widespread destitution which appeared in other parts of Canada. The exporting industries were composed largely of small-scale individual enterprisers, namely, fishermen, farmers, and lumbermen, who retained a relatively high degree of self-sufficiency. When their prices dropped their standards of living had to be sharply reduced but they were not entirely without food and shelter. Aside from the coal and steel industries there were no large industrial concentrations. Tariff increases and Dominion transportation subventions to coal helped considerably to maintain employment in the steel mills and the coal mines. Hence no severe or protracted problem of mass unemployment arose. However, there were many on the farms and in the towns who, in one way or another, obtained a livelihood but could not find satisfactory jobs, and there were many who lived on the margin of subsistence. Emigration which had been an important outlet in former years was greatly reduced. There were not sufficient opportunities for the growing population. Thus in Nova Scotia the main problem was to find permanent means for employment rather than to relieve a temporary situation. The provincial government undertook a large-scale program of highway construction with the object of providing both immediate employment and of expanding the capacity of the economy by encouraging the tourist trade and reducing the costs of transportation. During the eight-year period 1930-37 capital outlay on highways was nearly four times as great as the total expenditures by all governments on direct relief. The latter added only $2 million to the provincial debt, but highways added over $30 million. The Province took advantage of its high credit standing, low interest rates and idle labour to provide facilities which it hoped would stimulate economic development. Whether or not the highways will turn out to be a significant factor in helping to overcome some of the long-run economic difficulties of the area, they have greatly intensified the problems of provincial government finance. The limited revenue sources of the Province cannot easily carry the heavy fixed charges of large deadweight debts.

TABLE 60—NOVA SCOTIA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	15.2	16.0	15.7	14.9	15.9	18.3	18.7	19.3
Total Mun.-Prov. Current Expenditures[a] excluding Relief	15.0	15.7	15.5	16.0	16.6	18.6	17.3	18.2
Surplus available for Relief or **Deficit**	.2	.3	.2	**1.1**	.7	.3	1.4	1.1
Total Relief Costs expended through Mun.-Prov. Agencies	.1	2.6	3.8	3.2	2.4	3.0	2.7	2.6
Deficiency or Surplus of Mun.-Prov. Revenues	.1	**2.3**	**3.6**	**4.3**	**3.1**	**3.3**	**1.3**	**1.5**
Less Share of Relief Assumed by Dominion	.1	.9	1.4	1.1	.8	1.3	1.3	.7
Mun.-Prov. **Deficit** or Surplus	.2	**1.4**	**2.2**	**3.2**	**2.3**	**2.0**	—	**.8**
Capital Expenditures on Highways not included in Relief	**1.9**	**1.3**	**.5**	**1.8**	**1.1**	**4.4**	**5.5**	**7.8**

[a] Including municipal sinking fund contributions and debt retirement.

New Brunswick

The situation in New Brunswick was similar to that in Nova Scotia. The forest and agricultural industries which dominated the economy of New Brunswick afforded considerable scope for alternative employment and self-sufficiency. The sale of pulpwood to the pulp and paper mills which continued to operate at a high rate of capacity throughout the depression provided a source of income to many farmers and labourers. The British preferences granted in the Empire Trade Agreements brought a considerable revival in lumber production after 1933. Prices of farm products and the earnings that could be obtained from working in the woods were tragically low but for nearly everyone it was possible to get the means of subsistence which greatly reduced the extent of government relief. The most important development in provincial finance during the depression in New Brunswick as in Nova Scotia was the large capital outlays on highways. However, the scale of the

TABLE 61.—NEW BRUNSWICK—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	12.0	11.7	11.3	11.0	11.4	12.1	12.8	14.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	12.0	11.4	11.3	11.2	11.4	12.1	12.3	12.9
Surplus available for Relief or **Deficit**	—	.3	—	.2	—	—	.5	1.2
Total Relief Costs expended through Mun.-Prov. Agencies	.3	2.6	.5	1.9	1.3	2.4	2.5	1.5
Deficiency of Mun.-Prov. Revenues	.3	2.3	.5	2.1	1.3	2.4	2.0	.3
Less Share of Relief Assumed by Dominion	.3	.7	.4	.6	.4	1.1	.9	.6
Mun.-Prov. **Deficit** or Surplus	—	1.6	.1	1.5	.9	1.3	1.1	.3
Capital Expenditures on Highways not included in Relief	6.6	2.3	1.6	.3	.7	3.9	3.1	9.1

[a] Including municipal sinking fund contributions and debt retirement.

expenditures relative to the economy was considerably greater. Consequently the finances of the Province got into an even more vulnerable position. In 1937 the accumulated per capita outstanding debt incurred for highways in New Brunswick was one-third higher than in any other province. During that year net debt charges, about nine-tenths of which were due to highways, absorbed 37 per cent of the total current revenues of the Province.

Quebec

Relief in Quebec was very largely concerned with the problem of mass unemployment in the metropolitan area of Montreal. This area, the largest urban concentration in the country, contains nearly 40 per cent of the population of the Province and is very closely dependent upon Western Canada. Montreal, with its railway termini, shipping, manufactures, financial and distributive facilities, constitutes the entrepôt to the great exporting industries of the West which are the bases of the transcontinental economy. The sharp drop in the purchasing power of that exporting region reacted directly and severely upon Montreal. The destitution which arose from the resulting unemployment could only be relieved with government assistance. In such a large industrial concentration there were few opportunities for self-sufficiency or alternative employments. The burden upon both municipal and industrial finances was great. The assistance from the Dominion took care of less than 30 per cent of the costs. The portions left to the local governments far exceeded the amounts that could feasibly be raised by provincial or municipal taxes and virtually the whole of the requirements were borrowed. The total relief capitalized by the Provincial Government during 1930-1938 was almost equal to the total outstanding debt of the Province at the beginning of the period. Relief was largely responsible for the rise in the municipal debt of

TABLE 62.—QUEBEC—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	115.0	111.2	110.4	110.2	116.5	123.4	126.7	141.8
Total Mun.-Prov. Current Expenditures[a] excluding Relief	110.5	110.8	115.8	115.8	117.2	125.5	127.2	136.7
Surplus available for Relief or **Deficit**	4.5	.4	5.4	5.6	.7	2.1	.5	5.1
Total Relief Costs expended through Mun.-Prov. Agencies	2.0	17.3	18.8	22.2	31.8	26.5	35.4	30.8
Deficiency or Surplus of Mun.-Prov. Revenues	2.5	16.9	24.2	27.8	32.5	28.6	35.9	25.7
Less Share of Relief Assumed by Dominion	.3	5.1	5.8	4.7	11.3	7.9	10.4	8.0
Mun.-Prov. **Deficit** or Surplus	2.8	11.8	18.4	23.1	21.2	20.7	25.5	17.7

[a] Including municipal sinking fund contributions and debt retirement.

metropolitan Montreal from $252 million to $345 million between 1930 and 1937. The Quebec municipalities were required to assume a considerably larger share of the total relief expenditures than municipalities elsewhere in Canada (28 per cent in Quebec compared with 15 per cent in all the rest of Canada). Consequently, the municipal finances of Quebec, especially of Montreal, emerged from the depression in a far more weakened condition than was the case in other parts of the country.

Over 70 per cent of the total outlay for unemployment was for direct relief. At the beginning and at the end of the period large expenditures were made on public works. These, however, proved to be extremely costly in comparison with other methods of dealing with the relief of distress. In certain circumstances it may be most economical in the long run to choose a time of idle resources to construct needed capital facilities, but desirable results cannot be obtained without careful planning, adequate financial resources and control of monetary affairs. The experience of Quebec along with that of other provinces demonstrated that the municipal-provincial revenue systems cannot support the huge expenditures which are involved in dealing with prolonged unemployment by means of public works.

While the sums which were spent on what was formally classified as relief reached large proportions, they did not include all the outlays for this purpose. The aid given by the Church, which had long fulfilled an important role in providing social services in Quebec, greatly reduced the costs which fell on governments. Furthermore, the Provincial Government undertook a number of activities which were not regarded as relief but whose main object nevertheless was to alleviate distress and provide employment. Between 1930 and 1937 the Province spent $26 million on colonization of settlers, $54 million on highway construction, and $14 million on loans to farmers. These activities, whether or not they were necessary or wise, were all more or less closely associated with the depression. Together with expenditures for relief, they brought a threefold increase in the provincial debt, a rise more rapid than that in any other province. Between 1930 and 1937 the per capita municipal-provincial deadweight debt rose from one of the lowest to one of the highest in the country.

Ontario

Unemployment in Ontario was largely the result of the contraction of manufacturing output and the collapse of the investment boom of the late twenties. The condition was most serious in industries which were directly dependent upon the markets of Western Canada and in the construction trades. While the situation was severe in certain industrial areas, such as Windsor and Toronto, and in a number of one-industry towns, the problem of meeting the costs of relief for the Province as a whole was not nearly as difficult as that in other parts of Canada. The total relief expenditures amounted to 19 per cent of the municipal-provincial revenues of the period compared with 27 per cent for the remainder of the Dominion. Ontario, in which were concentrated the greater part of the country's large individual and corporate incomes and wealth, had relatively easy access to additional government revenue. The Province also was the centre of gold mining, the nation's most rapidly developing industry, which both directly and indirectly provided many opportunities for employment and new sources of government income. Total municipal-provincial revenues

TABLE 63.—ONTARIO—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	189.2	188.3	187.8	188.6	185.9	198.3	212.5	216.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	188.8	189.2	189.3	182.4	185.9	179.0	179.6	195.4
Surplus available for Relief or **Deficit**	.4	.9	1.5	6.2	—	19.3	32.9	20.7
Total Relief Costs expended through Mun.-Prov. Agencies	2.4	21.3	33.4	32.4	60.7	54.5	38.5	28.2
Deficiency of Mun.-Prov. Revenues	2.0	22.2	34.9	26.2	60.7	35.2	5.6	7.5
Less Share of Relief Assumed by Dominion	1.2	9.4	9.5	11.9	15.5	15.5	15.1	7.4
Mun.-Prov. **Deficit** or Surplus	.8	12.8	25.4	14.3	45.2	19.7	9.5	.1

[a] Including municipal sinking fund contributions and debt retirement.

fell but slightly between 1930 and 1934, and rose considerably thereafter. After 1934 the Province and its municipalities were able to meet a substantial portion of their share of relief costs out of current receipts. The amount per capita of relief capitalized in Ontario was the lowest of any province in the Dominion with the exception of the Maritimes. The outstanding municipal-provincial debt rose by 18 per cent compared with 40 per cent in the rest of the country. Although the burden of relief brought a number of municipalities into default, the total municipal debt of Ontario declined by 13 per cent during the period.

Ontario spent a much larger proportion of her total relief outlay (36 per cent) on public works than did any of the other provinces with the exception of the Maritimes. This was partly due to the rapid development of the northern areas which provided better opportunities for useful works than appeared elsewhere. However, it was also a reflection of the relatively greater revenue and credit resources of this Province.

Manitoba

The burden of relief in Manitoba was more severe than in any other province except Saskatchewan. Eighty to 90 per cent of the total costs were incurred in the metropolitan area of Winnipeg. The depressed conditions in that centre were associated and the great wheat-growing area to the West which lies mainly beyond the boundaries of the Province. When the volume of that commerce was drastically curtailed by ruinous farm prices and a succession of unprecedented droughts in Saskatchewan the economic support of nearly 40 per cent of Manitoba's population virtually collapsed. The problem of unemployment was intensified by the accumulation of idle workers from the whole Prairie area. Winnipeg normally contains a large pool of labour from which many of the seasonal workers needed on the wheat lands are recruited. When jobs disappeared the labourers remained on the relief rolls of the city. Winnipeg was, therefore, required to take care of a substantial share of the misfortunes of the large industrial reserve army of the wheat-growing industry for whose condition the city was in no way responsible.

There was no surplus of municipal-provincial revenues with which to meet the sharply rising expenditures for relief. Between 1931 and 1933 the Province imposed sharp increases in taxation, including a wage tax which raised the provincial tax structure to the highest level in Canada. However, the receipts from the new and additional imposts did no more than make up for the declines in municipal-provincial revenues from previous sources. The greater portion of the outlays on relief had to be borrowed. By 1932 the credit of the Province

TABLE 64.—MANITOBA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	34.5	32.8	33.7	35.1	34.7	34.1	34.3	35.4
Total Mun.-Prov. Current Expenditures[a] excluding Relief	34.3	34.7	35.9	34.6	32.8	32.1	31.1	31.4
Surplus available for Relief or **Deficit**	.2	**1.9**	**2.2**	.5	1.9	2.0	3.2	4.0
Total Relief Costs expended through Mun.-Prov. Agencies	1.6	8.6	7.4	7.1	7.5	9.8	12.2	9.8
Deficiency of Mun.-Prov. Revenues	**1.4**	**10.5**	**9.6**	**6.6**	**5.6**	**7.8**	**9.0**	**5.8**
Less Share of Relief Assumed by Dominion	.3	3.3	2.8	2.5	2.2	3.3	5.1	3.5
Mun.-Prov. **Deficit**	**1.1**	**7.2**	**6.8**	**4.1**	**3.4**	**4.5**	**3.9**	**2.3**
Dominion Loans to the Province for Relief, and General Purposes[b]	—	2.9	1.6	1.2	4.4	4.2	4.9	2.7

[a] Including municipal sinking fund contributions and debt retirement.
[b] $805,000 of these advances were written off by the Dominion in 1937.

only in a small way with circumstances within Manitoba itself. The drought was a minor factor and agriculture is of far less relative importance than in the other two Prairie Provinces. The prosperity of Winnipeg is very directly dependent upon the vast flow of commerce between the East and its municipalities was exhausted. Most of the suburban municipalities around Winnipeg had defaulted on their debts. Thereafter the money for capitalized relief and current deficits could only be obtained by means of provincial loans from the Dominion. The Province in turn made loans to

municipalities. For several years, also, the maturing obligations of the Province were refunded with Dominion advances. At the end of 1937 the indebtedness to the Federal Government was $22 million, or nearly one-fifth of the total outstanding provincial debt. In addition, the Dominion had guaranteed provincial bank loans amounting to $12 million. The municipalities owed the Province $4 million.

Saskatchewan

Canada's most serious economic troubles during the thirties had their origin in the impact of the world depression and drought upon the wheat-growing industry of Saskatchewan. This industry, upon which the interdependence and economic integration of the country were chiefly based, suffered the most unfavourable coincidence of circumstances in its history. If the repercussions upon other sections of the Dominion were widespread and severe, the conditions in Saskatchewan were nothing short of disastrous. Economically this area was the most vulnerable in Canada. No other province was so completely dependent upon the fluctuations in the export market. Nowhere was production so dependent upon the vagaries of the climate.

Ruinous prices and drought were about equally responsible for the disaster. The forces which so intensified the world depression fell with particular severity on wheat. The national economic policies of the Dominion did virtually nothing to soften the blow. The full exposure to the adverse world influences drove the prices received by the farmer to levels which during the period 1930-35 averaged less than one-half that of the decade of the twenties. Such a decline, in the face of the high fixed costs of Western agriculture, would have caused general and drastic hardship. The addition of the drought brought outright and widespread destitution, as well as complete inability to operate farms without government assistance.

The area affected by successive crop failures was about equal to one-quarter of the total improved farm acreage of Canada. It contained nearly one-half the rural inhabitants of Saskatchewan. In 1931, one-half; in 1933-4-6, one-third; and in 1937, two-thirds of the total farm population of the Province was destitute. Not only was this large section of the population dependent for livelihood upon public charity, but the operating expenses of from one-third to two-thirds of Canada's largest export industry had to be met by the Government. It was the latter which chiefly distinguished Saskatchewan's problem from that in the other provinces. In the other provinces it was mainly a matter of providing food, fuel, clothing and shelter for unemployed wage-earners. In the case of the Saskatchewan wheat farmer the failure of a crop involved not merely the loss of the means of livelihood but also the working capital invested in that crop. This working capital had to be made available before there was another chance of the farmer becoming self-supporting. The provision year after year of seed, feed, fodder and supplies to tens of thousands of large-scale farmers entailed a huge financial burden not encountered in the relief of industrial unemployment. The per capita costs in Saskatchewan for agricultural aid alone (seed,

TABLE 65.—SASKATCHEWAN—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	41.5	37.9	39.4	38.7	36.5	36.8	35.4	38.3
Total Mun.-Prov. Current Expenditures[a] excluding Relief	43.0	41.0	39.4	38.5	38.1	37.6	35.7	36.7
Surplus available for Relief or **Deficit**	**1.5**	**3.1**	—	.2	**1.6**	**.8**	**.3**	1.6
Total Relief Costs expended through Mun.-Prov. Agencies	5.9	24.0	13.2	10.3	21.1	18.6	22.7	62.3
Deficiency of Mun.-Prov. Revenues	**7.4**	**27.1**	**13.2**	**10.1**	**22.7**	**19.4**	**23.0**	**60.7**
Less Share of Relief assumed by Dominion	.5	7.9	7.1	2.4	8.0	7.2	11.3	27.5
Mun.-Prov. **Deficit**	**6.9**	**19.2**	**6.1**	**7.7**	**14.7**	**12.2**	**11.7**	**33.2**
Dominion Loans to Province for Relief and General Purposes[b]	—	11.5	5.3	3.1	13.5	11.1	6.1	11.5
Seed Grain Bank Loans Guaranteed by Dominion	—	—	—	—	—	—	2.6	14.5

[a] Including municipal sinking fund contributions and debt retirement.
[b] $17·7 million of these advances were written off by the Dominion in 1937.

feed, etc.) was greater than the total per capita disbursements for all relief purposes in the other provinces.

The costs of direct and agricultural relief completely overwhelmed the finances of the Province and its municipalities. These costs during 1930-37 never fell to less than 27 per cent (1933) of the total municipal-provincial revenues, and in 1937 they rose to 163 per cent of such revenues. For the whole period the relief expenditures amounted to 60 per cent (compared with 21 per cent for the rest of the country) of the total ordinary receipts of the Province and its municipalities combined. Although new taxes were imposed and rates increased, revenues could not be maintained at levels required to provide adequate ordinary government services, much less to pay for any part of relief costs. It was manifestly impossible to meet any significant portion of the outlay on relief by means of local taxation when total expenditures for this purpose for the eight-year period exceeded the total net farm cash income of the whole Province.

Table 66.—Relief Expenditures in Saskatchewan and the Rest of Canada

—	Total Relief Expenditures 1930-37	
	Saskatchewan	Other Canada
Percentage of Total Income.....	13·6	3·1
Percentage of Municipal—Provincial Current Revenues...	60·5	20·1
Per Capita (dollars).....	196	76

During 1929 and 1930 there were severe droughts in the central and south central sections of the Province. The greater portion of the cost for agricultural aid fell on the municipalities who borrowed the money by means of provincially guaranteed bank loans. In 1931, when the crop failure was even more widespread, the municipalities were at the end of their tether. The Provincial Government was not in a much better position. For three decades the expansion of Saskatchewan's wheat industry had been a major factor in the prosperity, in the growth of large incomes and in the accumulation of wealth in some of the older regions of Canada. The Province had no access either by taxation or borrowing to this surplus, which its industry had created during prosperity, to tide it over the years of adversity. Such a transfer of income, which was absolutely essential to prevent widespread starvation and the collapse of the wheat industry, could only be brought about by means of national taxation and the borrowing powers of the Dominion. After 1930 the Dominion assumed substantial portions of the total relief expenditure. For several years the Federal Government paid 100 per cent of the cost of rural relief and agricultural aid in the drought area. However, the share of the burden left with the Province proved to be far in excess of its credit resources. After 1932 its borrowing powers were gone. Henceforth the Dominion provided nearly the whole of the funds required for relief either by direct payment of the cost or by loans directly to the Province or by guarantees to the banks. The share of relief disbursements assumed by the Federal Government in Saskatchewan was larger than that in any other province, viz., one-half, compared with one-third in the rest of the country. Direct and guaranteed Dominion loans supplied 35 per cent of the total outlay. Only about 15 per cent of the funds required for relief were raised by the Province and the municipalities. Nevertheless the share (50 per cent) of the burden left as the responsibility of the provincial and municipal governments involved the addition of large amounts to the provincial debt. The portion which the municipalities as a whole were able to assume was less than 5 per cent of the total cost (that is after write-offs and subsequent adjustments). The Provincial Government undertook, either directly or indirectly, virtually the whole of the liability in excess of the Dominion share. Between 1930 and 1937 the total debt of the Provincial Government was more than doubled. Three-quarters of this increase was due to relief. In 1929 the per capita deadweight debt of the Province of Saskatchewan was the lowest in Canada with the exception of Quebec; in 1937 it was the highest.

Alberta

The severity of the relief burden in Alberta was approximately equal to that of the average for all provinces. On a per capita basis the outlay was the lowest in Canada with the exception of the Maritimes and Quebec. Total expenditures for unemployment and agricultural aid in Alberta amounted to only slightly more than one-fourth of that in Saskatchewan and three-fourths of that in Manitoba. While there were a number of crop failures in some sections of the Province, the total area affected was relatively small. The average yield per acre of wheat during 1930-37 was only slightly below normal and exceeded that of Saskatchewan by nearly 60 per cent. Furthermore, irrigation in the southwest and a considerable

degree of mixed farming elsewhere made Alberta's agriculture more self-sufficient than that of her wheat-growing neighbour to the east. The total cost for agricultural aid in Alberta for the eight-year period amounted to $6·4 million, or less than one-fifth of the cost in Saskatchewan for the single year of 1937.

The incidence of ruinously low prices, however, was perhaps more severe than elsewhere. Owing to the more recent development of Alberta fixed debt charges were relatively higher than in any other province. In addition, farmers had not had time to become as well established. Under these circumstances, the drastic fall in prices of agricultural products produced a relatively greater strain on the farming industry and on governments. Alberta's depression problem was more one of debt and high overhead costs than one of widespread destitution.

However, despite large expenditures, the relief burden did not intensify the municipal debt problem. Over the period, Alberta municipalities as a whole were able to reduce their total outstanding debts by over 20 per cent, a percentage reduction greater than in any other province. This, however, was only accomplished with a heavy burden of taxation on falling real estate values.

During the first half of the period the share of relief assumed by the Provincial Government was entirely financed out of borrowings. After 1932, Alberta, like other Western Provinces, could no longer borrow on her own credit. Thereafter, the Dominion supplied the necessary loans. After 1934 the imposition of new taxes, increases in rates together with a measure of recovery produced a rise in revenues, but the Province remained unable to meet the full costs of its portion of relief. However, following the arbitrary reduction of debt charges by one-half in 1936, the Province was able to finance without further borrowings. Between 1930 and 1937 the provincial debt rose by $32 million, over 50 per cent of which was due to relief. This represented a rate of increase less than half as rapid as that which took place on the average in other provinces. Alberta's per capita deadweight debt, however, was one of the highest in Canada.

Table 67.—Alberta—the Cost of Relief and Municipal-Provincial Finances, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	36.6	34.4	35.5	35.2	36.1	36.3	38.7	39.2
Total Mun.-Prov. Current Expenditures[a] excluding Relief	38.0	39.4	36.7	35.6	35.2	35.1	33.2	33.2
Surplus available for Relief, or **Deficit**	**1.4**	**5.0**	**1.2**	**.4**	.9	1.2	5.5	6 0
Total Relief Costs expended through Mun.-Prov. Agencies	2.4	6.7	5.9	4.9	6.0	7.0	9.2	7.6
Deficiency of Mun.-Prov. Revenues	**3.8**	**11.7**	**7.1**	**5.3**	**5.1**	**5.8**	**3.7**	**1.6**
Less Share of Relief Assumed by Dominion	.2	2.6	2.6	1.5	1.6	1.8	3.6	3.7
Mun.-Prov. **Deficit** or Surplus	**3.6**	**9.1**	**4.5**	**3.8**	**3.5**	**4.0**	**.1**	2.1
Dominion Loans to Province for Relief and General Purposes	—	1.0	1.9	2.1	3.9	7.7	.8	.2

[a] Including municipal sinking fund contributions and debt retirement.

Alberta's relief expenditures arose very largely out of the unemployment which prevailed in the cities, principally Calgary and Edmonton. These cities were mainly dependent on the distribution of goods and supplies to the farms, and upon investment resulting from rapid settlement of the frontier. When low prices and heavy fixed costs sharply curtailed farm purchasing power and reduced agricultural expansion, opportunities for employment declined. Furthermore, these centres became havens of refuge for workers and farmers who had left the land. Alberta municipalities were required to assume a slightly larger share of total relief costs than in other parts of Canada. Since their ability to borrow quickly disappeared, the whole of the funds had to be raised by taxation and by loans from the Provincial Government.

British Columbia

The British Columbia economy was fully exposed to the unfavourable influences of the world depression. Employment was heavily dependent upon production for foreign markets. As the prices and markets for raw material exports fell, unemployment became chronic. Unlike the Maritimes or the Prairie Provinces, British Columbia's export

industries are operated by large-scale corporate methods in which the workers are wholly dependent upon wages. In the former Provinces, where individual enterprise located in rural areas is predominant, at least some degree of self-sufficiency is possible. In British Columbia, when export markets and prices decline sharply, large numbers of labourers are left completely without means of support and must be looked after by public relief. municipalities were tided over by the provincial assumption of a larger portion of the total costs of relief and by provincial loans. During the last two years British Columbia municipalities were required to contribute less than 9 per cent of the total outlay. This easing of the burden by the Province avoided dangerous increases in the municipal debt which would otherwise have been necessary.

TABLE 68.—BRITISH COLUMBIA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	46.8	45.4	44.1	44.0	45.8	47.4	48.6	52.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	47.5	47.7	44.8	43.2	43.0	43.3	44.4	47.6
Surplus available for Relief or **Deficit**	**.7**	**2.3**	**.7**	.8	2.8	4.1	4.2	4.5
Total Relief Costs expended through Mun.-Prov. Agencies	2.2	8.4	8.9	8.1	9.9	11.3	10.0	9.0
Deficiency of Mun.-Prov. Revenues	**2.9**	**10.7**	**9.6**	**7.3**	**7.1**	**7.2**	**5.8**	**4.5**
Less Share of Relief Assumed by Dominion	.3	3.4	4.1	3.4	3.2	2.3	3.5	3.1
Mun.-Prov. **Deficit**	**2.6**	**7.3**	**5.5**	**3.9**	**3.9**	**4.9**	**2.3**	**1.4**
Dominion Loans to Province for Relief and General Purposes	—	1.6	2.2	1.9	4.0	6.6	4.0	2.9

[a] Including municipal sinking fund contributions and debt retirement.

Prior to the depression British Columbia was the most rapidly growing province in Canada, and a relatively larger number of workers than elsewhere were drawn into the construction industry. When the investment boom collapsed the unemployment problem on this account was relatively more severe. The difficulties were enhanced by the fact that most of the expansion took place in the metropolitan area of Vancouver which contains nearly half the population of British Columbia. This concentration of the population in one urban centre was greater than that in any other province. The relief problem was further intensified by the migration of many unemployed labourers from the Prairie Provinces to the milder climate of the coast city.

As a consequence of these various factors, per capita relief expenditures in British Columbia were the largest in Canada with the exception of Saskatchewan. Relative to the provincial income, however, they were less burdensome than in any of the Prairie Provinces. During the first half of the period none of the relief costs were met out of current revenues. Debts rose rapidly and by 1933 the credit of the Province and the municipalities was exhausted. Henceforth the necessary loans had to be obtained from the Dominion. The

After 1933 higher taxes and improvement in export prices produced a sharp rise in provincial revenues. In 1937 these revenues were almost 30 per cent higher than they were in 1930. In each of the years 1934 and 1937 substantial portions of the relief expenditures were met out of current receipts. Thus, in spite of a continuing heavy relief burden, increases in provincial debt were held at a relatively low level. Between 1930 and 1937 total liabilities rose 35 per cent compared with 57 per cent for all provincial governments. British Columbia's per capita deadweight debt, however, was for many years the highest in Canada. In 1937 it was only slightly below that of Saskatchewan.

Results of Dominion Insistence on Primary Prov.-Mun. Responsibility for Relief—large Dom. expenditures without adequate control, large deficit spending with wasteful results, creation of unwieldy prov. and mun. debts, virtual breakdown of finances of several provinces

It is clear from the above brief review that there was no co-ordinated or carefully planned relief policy in Canada during the depression. It was a policy of expediency which failed either to promote

maximum welfare under the circumstances or to safeguard the financial position of the various governments. The Dominion, from whom alone leadership could have come, was mainly concerned with steering a day-to-day course between insisting on the constitutional responsibility of the provinces and the necessity of preventing widespread starvation. Although the Dominion provided nearly one-half of the total funds, and over 70 per cent in the case of the Western Provinces, it did not have adequate control over the money which was spent and administered by nine different provinces and by hundreds of municipalities, each trying to get along as best it could without much thought of the others. Because of limited financial resources and dependence upon the Dominion no province could carry out an efficient and economic program of its own. The grant-in-aid policy of the Federal Government, which involved an expenditure of federal money amounting to $162 per capita in Saskatchewan and only $23 to $12 per capita in the Eastern Provinces, resulted in large transfers of income from one section of the country to another under conditions that gave no assurance that the transfers were spent in a manner which produced the greatest national benefits. Because of the wide disparities in the incidence of the depression and the effects of the national economic policies large transfers were inevitable, but their basic purpose should have been to enhance the national welfare. As it turned out, glaring and unjustifiable differences in relief standards arose;[1] large amounts of federal money were either directly or indirectly loaned to farmers and municipalities without proper safeguards as to repayment; free movement of labour to jobs was impeded by a maze of local relief regulations; many homeless unemployed were pushed from pillar to post; and large sums were wasted by conflicting and offsetting policies which were followed in different parts of the country.

Although a large amount of federal funds was spent the conditions under which the money was given did not prevent breakdowns in municipal-provincial finance. The grant-in-aid policy was based on the premise that the province (with its municipalities) was constitutionally responsible and that it should, therefore, carry as much of the burden of relief within its area as possible. The province in turn tended to hold the municipalities responsible and to push the financial burden as far as possible on their shoulders. As a consequence nearly all the provinces and many municipalities were drawn to the edge of financial solvency and some were pushed over and became bankrupt. Some municipalities and governments of every province, with the possible exception of the two Central Provinces, acquired heavy deadweight relief debts which their limited taxing powers cannot carry indefinitely. The Western Provinces either temporarily or permanently lost their financial independence and could only continue to function with Dominion loans and in some cases with partial default of debt charges. In 1937, one-fifth of the total municipal-provincial revenues were absorbed by the interest on non-self-supporting debts.

TABLE 69.—DOMINION RELIEF EXPENDITURES IN EACH OF THE PROVINCES THROUGH MUNICIPAL-PROVINCIAL AGENCIES, PER CAPITA AND PORTION OF TOTAL FUNDS PROVIDED, 1930-37

—	Per Capita (dollars)			Percentage of Total Funds Provided by Dominion
	Dom. Share	Dom. Loans	Total	
				%
Prince Edward Island	14	—	14	40
Nova Scotia	14	—	14	37
New Brunswick	12	—	12	39
Quebec	17	—	17	29
Ontario	23	—	23	32
Manitoba	33	29	62	69
Saskatchewan	96	66	162	85
Alberta	23	23	46	71
British Columbia	31	31	62	68
TOTAL	26		37	46

Deficit spending occurred on a large scale, but because of the unrelated policies of numerous governments, it did not produce, assuming it was necessary and desirable, the most efficient results. Some provinces spent large amounts on public works while others drastically curtailed such outlays. Some endeavoured strenuously to minimize the increases in debt to preserve their credit while others borrowed extensively with consequent harm to the credit of their more cautious neighbours as well as to their own; some fulfilled their portions of national projects while others could not, or would not, do so. Had the relief deficits been centralized in the one authority which had control of monetary policy and possessed the national powers of taxation, the money could have been obtained at considerably lower interest rates and could have been spent effectively as part of a general and co-ordinated employment and recovery program. In the latter case the country could have emerged from the depression with government finance as a

[1] See Appendix 6.—A. E. Grauer, *Public Assistance and Social Insurance*, pp. 22-28. See also this Report, Book II, Sect. A, Ch. I for further discussion of this problem and for recommendations thereon.

TABLE 70.—THE EFFECT OF RELIEF ON MUNICIPAL-PROVINCIAL DEBTS—1930-1937

(Millions of Dollars)

—	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	TOTAL
Outstanding Debt 1930	4·4	79·0	69·4	458·7	1,064·3	202·9	163·7	204·5	237·5	2,484·4
Total capitalized Relief and Current Deficits	2·0	11.9	6.2	138.4	108.0	31.4	87.1	22.9	29.2	437.1
Other Capital Expenditures and Advances Net	3.0	29.4	28.9	211.8	189.4	**14.6**	30.0	2.5	28.5	508.9
Less Contributions to Municipal Sinking Funds and Debt Retirement	**.9**	**3.5**	**2.1**	**49.1**	**106.7**	**10.2**	**7.2**	**8.8**	**10.5**	**199.0**
Outstanding Debt 1937	8.5	116.8	102.4	759.8	1,255.0	209.5	273.6	221.1	284.7	3,231.4
Percentage of Debt Charges to Current Revenues, 1937	16	20	27	21	17	21	23	15[a]	**21**	19

[a] At reduced rates.

whole in a much stronger position, the virtual breakdown of provincial finance could have been avoided and there could have been much more to show for the debts both in terms of human welfare and in material productive equipment. The decentralization of the deficits made it extremely difficult to obtain the best results from the huge expenditures of public money.

TABLE 71.—DEFICIT SPENDING AND THE INCREASE IN GOVERNMENT DEBTS, 1930-37

(Millions of Dollars)

—	Dominion	Provinces and Municipalities	Less Duplications	Total
Capitalized Relief and Current Deficits	770	437	—	1,207
Capital Expenditures—not wholly self-supporting	147	477	**5**	619
Less—Municipal Contributions to Sinking Funds and Debt Retirement	—	**199**	—	**199**
Total Deficit	917	715	**5**	1,627
Increase in Cash and Liquid Assets	159	32	**129**	62
Total Increase in Outstanding Debt, 1930-37	1,076	747	**134**	1,689

Current Expenditures—rising debt charges, relief and other public welfare force contraction in other expenditures; important services in some provinces reduced below desirable standards

Relief and public welfare overshadowed all other government activities during the depression; aggregate expenditures of all Canadian governments on every other service, apart from net debt charges and defence, declined. If relief be excluded the total per capita outlay of governments on current account was practically the same in 1937 as in 1930. However, this stability was entirely due to the decreasing expenditures of the municipalities. The senior governments assumed an increasing share of government costs; the Dominion-plus-provincial per capita outlay (excluding relief) rose slightly. While total government expenditures were not altered significantly they constituted a rising proportion of the national income, e.g., 20 per cent in 1930 and 26 per cent in 1937. Such increases of government expenditures as occurred were in connection with services (except defence) arising chiefly out of destitution caused by the depression. The per capita disbursements for public welfare (excluding relief) rose by nearly 60 per cent. As unemployment continued public health service had to be extended. The Old Age Pension scheme was adopted in four additional provinces and a rapidly increasing number of those over 70 were given assistance. After 1930 the Dominion increased its contribution from 50 per cent to 75 per cent of the cost of these pensions. During the eight-year period the outlay on old age pensions increased by $27 million. The other significant rise in government costs, namely debt charges, was closely related to the capitalization of relief and other capitalized expenditures associated with the depression.

In 1930 relief and other public welfare absorbed 11 per cent of the current receipts; by 1937 the proportion had risen to 25 per cent. In the latter year these two items together with net debt charges took 53 per cent of the total revenues. The narrowing margin of the remaining income put a severe pressure on other government activity,

particularly that of the provinces and the municipalities. The per capita expenditures on education were reduced 16 per cent (in Saskatchewan there was a reduction of 41 per cent). The per capita outlay on the maintenance of roads and streets fell by 27 per cent on the average and by 41 per cent on the Prairie Provinces. In spite of the additional staffs required for expanding public welfare activities the cost of general administration was decreased, again the largest cuts being made by the Prairie governments. Thus the burden of relief which was left to the provinces and municipalities and the rising debt charges produced in many cases an undesirably large retrenchment in essential services. The upkeep of highways and buildings was skimped for the purpose of immediate savings which would later result in much greater expenditures. The outlay on public domain, particularly in British Columbia, was decreased to a point which hampered development and conservation of resources. Certain helpless groups such as the infirm were in some provinces inadequately cared for. The sums devoted to education in Western Canada were cut below those necessary for the maintenance of desirable standards.

TABLE 72.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT, 1930 AND 1937—ALL GOVERNMENTS

(Thousands of Dollars)

	Municipal		Provincial		Dominion		Total[b]	
	1930	1937	1930	1937	1930	1937	1930	1937
Net Debt Charges	55,740	54,813	29,476	50,911	149,098	167,043	232,522	271,339
Defence	—	—	—	—	23,256	33,614	23,256	33,614
Pensions and Aftercare	—	—	—	—	55,341	54,437	55,341	54,437
Public Welfare	31,510	53,223	34,678	87,806	17,698	109,998	83,882	251,010
Education	84,705	76,506	33,775	32,121	702	272	119,191	108,899
Agriculture and Public Domain	—	—	21,241	20,636	23,298	17,909	44,484	38,545
Transportation	42,159	30,559	28,328	25,191	29,083	18,000	99,570	73,750
Subsidies to Provinces	—	—	—	—	19,036	21,210	—	—
General Expenditures—								
Justice, Legislation, General Government and Miscellaneous	71,614	66,936	35,902	41,835	[a]70,332	55,685	[a]177,849	164,456
TOTAL	285,728	282,037	183,400	258,500	387,844	478,168	836,095	996,050

[a] Includes Post Office Deficit—6,081.
[b] Less duplications.

Current Revenues—vulnerability of revenue structure, increases in revenue sought mainly by imposts on consumption and costs; inadequate use of progressive taxes on net incomes and inheritances

Canadian government finance entered the depression with a highly vulnerable revenue structure. A considerable proportion of the receipts were directly tied to the extreme variations of export prices and luxury expenditures. About one-fifth of the total revenues (40 per cent for the Dominion) were obtained from customs duties on imports which fluctuated closely with the value of exports, capital movements and the volume of investment. Over 10 per cent of total government receipts was derived from imposts on cigarettes and liquor and was, therefore, sensitive to the wide swings which occur in the consumption of luxuries and semi-luxuries. Another 5 per cent came from amusement taxes, public domain, sales of commodities and services and from miscellaneous sources which were immediately affected by changes in economic conditions. Thus about 35 per cent of total government revenues were obtained from sources which fluctuated more widely than the national income. Between 1929 and 1933, this group of revenues fell by 53 per cent.

At the beginning of the slump, one-third of the public receipts consisted of municipal taxes on real estate which fell sharply in value as economic expansion ceased. Slightly over one-fourth came from corporation taxes, gasoline taxes, sales taxes, miscellaneous taxes and licences and fees. Less than 7 per cent was derived from progressive taxes on personal incomes and inheritances.

With the onslaught of the depression, governments were immediately harassed from two sides —rapidly falling receipts from vulnerable revenue sources and sharply rising costs due to relief, other public welfare and debt charges. The urgent problem of finding new revenues was greatly intensified by the wide differences in the decline of incomes in the various regions and areas and by the constitutional division of taxing powers. The

municipalities had virtually only one source of revenue—taxes on real estate. With this source nearly one-fifth of the relief and 14 per cent of the increase in other public welfare costs had to be financed. There were few places where savings could be made. Interest and sinking fund provisions respecting municipal debt constituted a large annual outlay that could not be reduced. These increases in cost and fixed charges made it impossible to avoid increases in levies and the maintenance of assessments. Due to the adoption of such increases receipts from real estate taxes declined only slightly in spite of rapidly falling earnings from real property. In the metropolitan area of Montreal levies on real estate were supplemented by a municipal sales tax. The sharp contraction of income from real estate after payment of taxes was an important deterrent to a revival of construction without which a substantial measure of recovery was not possible.

The provinces were restricted in their search for revenues both by the constitution and by practical circumstances. Indirect taxes were not within their powers. The income tax field was occupied by the Dominion. In any case, with the exception of Ontario, Quebec and British Columbia, the provinces could hope to get comparatively little from income taxes owing to the scarcity of large incomes and the prevalence of small-scale, individual enterprise in their economies. Although succession duties were imposed solely by provincial governments, revenues from this source could not be greatly expanded except in the Central Provinces because of the relative absence of large concentration of wealth in other provinces. Consequently increases were concentrated in the main on corporation taxes, gasoline taxes and motor licence fees. This group brought in over one-half of the $70 million that was added to provincial revenues between 1930 and 1937. Income taxes were imposed by all the provinces except the Maritimes and Quebec, and the rates, along with those on inheritances were raised, but one-half of the $25 million increase in receipts from these sources was collected in Ontario. The most hard-hit provinces ventured into new fields, Manitoba imposing a wage tax, and Saskatchewan and Alberta levying retail sales taxes.

The plight of some of the provinces was recognized by the Dominion by granting increases in unconditional subsidies. The special grants to Prince Edward Island, Nova Scotia and New Brunswick were increased by $150,000, $425,000 and $300,000 respectively in accordance with the report of the White Commission. During the same year British Columbia was given an additional $750,000. In 1937, special temporary grants were made to Manitoba and Saskatchewan of $750,000 and $3,500,000 respectively to help finance essential government services which would otherwise have had to be continued at far below desirable standards. The total increase of $7 million in the Dominion's unconditional subsidies, however, took care of only a small part of the increased provincial burdens. In 1937 large deficits on current account continued to exist in Saskatchewan and Alberta, and the other provinces were just barely in balance. However, few could long survive even a slight recession in economic activity without the reappearance of deficits.

The Dominion with its vulnerable customs and excise receipts was quickly confronted with the need to find new revenues. In 1931 the federal deficit rose to $151 million (a figure almost equal to one-half of the total revenues for that year) and it never fell below $74 million until 1937. In its efforts to raise additional income the Dominion resorted mainly to increases in consumption and corporation taxes. The progressive tax field was either left to the provinces, as in the case of the succession duties, or was not aggressively utilized. The sales tax was successively advanced from 1 per cent to 8 per cent. Corporation income taxes, excise duties on liquors and tobacco and revenue customs duties on a number of items of general consumption were sharply raised. Personal income tax rates were increased and exemptions lowered but not sufficiently to take care of more than a small part of the total requirements. Between 1930 and 1937 total Dominion revenues rose from $314 million to $464 million; almost three-fourths of this increase was produced by the sales tax.

The impact upon the constitutional framework of the exigencies of public finance during the depression added greatly to the confusion and inefficiency of the Canadian taxation system. The joint occupation by the Dominion and the provinces of the progressive tax field (except inheritance taxes) and the corporation tax field led in the one case to inadequate use and in the other to wasteful duplication. As a consequence far too great a proportion of the load of government expenditures was carried by regressive consumption taxes, by real estate taxes, and by economically harmful taxes on corporations and business.

Table 73.—Government Revenues on Current Account, 1930 and 1937—All Governments

(Thousands of Dollars)

	Municipal		Provincial		Dominion		Total	
	1930	1937	1930	1937	1930	1937	1930	1937
Federal Subsidies	—	—	14,276	21,184	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	131,209	112,077	131,209	112,077
Excise Duties	—	—	—	—	57,747	52,037	57,747	52,037
Manufacturers' Taxes	—	—	—	—	10,474	17,185	10,474	17,185
Sales Taxes	—	4,412	—	1,893	20,147	138,055	20,147	144,360
Corporation Taxes	—	—	18,520	34,002	45,961	71,742	64,481	105,744
Succession Duties	—	—	20,780	35,757	—	—	20,780	35,757
Income Taxes on Persons	2,381	1,870	2,122	11,884	26,624	50,597	31,127	64,351
Gasoline Taxes	—	—	23,487	38,906	—	—	23,487	38,906
Real Property Taxes	257,118	244,936	6,708	5,875	—	—	263,826	250,811
Amusement Taxes	—	—	4,525	2,838	—	—	4,525	2,838
Other Taxes	23,275	20,337	1,534	3,005	4,531	7,391	29,340	30,733
Sub-Total—Taxes	282,774	271,555	77,676	134,160	296,693	449,084	657,143	854,799
Motor Vehicles, automobile licences, etc	[a]	[a]	19,907	25,937	—	—	19,907	25,937
All Other Licences, Permits and Fees, Fines and Penalties	11,294	10,454	10,024	8,905	3,703	2,539	25,021	21,898
Public Domain	—	—	17,037	21,135	2,297	2,484	19,334	23,619
Liquor Control	—	—	30,985	29,798	—	—	30,985	29,798
Sale of Commodities and Services	3,171	6,175	1,159	965	2,745	[b]6,269	7,075	[b]13,409
Other	19,916	20,881	2,759	2,390	8,605	3,948	29,457	25,753
TOTAL	317,155	309,065	173,823	244,474	314,043	464,324	788,922	995,213

[a] Particulars not available; included with all Other Licences, Permits and Fees.
[b] Includes Post Office Surplus—3,250.

Chapter VII

THE ECONOMY TODAY

1. Canada's Place in the World Economy

Canada holds a particularly important place in the world economy, or at least in that section of the world economy which has been, or remains, organized on a basis of interdependent trade and financial relations and which operates as a functional whole. Although containing less than one per cent of the world's population, Canada ranks sixth among the leading world traders,[1] first among debtors,[2] fifth among creditors,[3] third or fourth among security dealers,[4] and first in tourist trade[5] —in fact she ranks high in all the major activities which make up the balance of payments.[6] On a per capita basis the Canadian figures in all these transactions substantially exceed those of the leading world economic powers—United States, United

[1] In 1937 fourth in exports, eighth in imports, sixth in total trade.

Table 74.—World Merchandise Trade

Net Imports	$ million	Domestic Exports	$ million	Total Trade	$ million	$ per capita
1. U.K.	5,081	1. U.S.A.	3,298	1. U.K.	7,659	165.72
2. U.S.A.	3,008	2. U.K.	2,578	2. U.S.A.	6,306	49.10
3. Germany	2,476	3. Germany	2,611	3. Germany	5,087	63.02
4. France	1,601	4. *Canada*	1,110	4. France	2,556	60.99
5. Japan	1,073			5. Japan	1,972	20.18
6. Belgium	923			6. *Canada*	1,919	174.01
7. Netherlands	853					
8. *Canada*	809					

[2] Nominally, Canada is slightly exceeded by Germany.

[3] Approximately, based on the following estimates of foreign investments—

	$billion
U.K.	19
U.S.A.	12
Netherlands	4
France	4
Canada	1¾

Estimates for Belgium and Switzerland are not available.

[4] Complete statistics not available. The gross Canadian turnover is approximately $1,000 million a year; this figure would be greatly exceeded by U.K. and U.S.A. transactions, and roughly equalled by Netherlands transactions.

[5] Foreign tourist expenditures in Canada were formerly less than in France, but in recent years Canada has apparently become much the largest tourist centre. It is interesting to note, however, that tourist expenditures in the State of California are double total expenditures in Canada.

[6] Table 75.—Canada's Balance of Payments

Current Account	1937 Credit	1937 Debit	1938 Credit	1938 Debit	1939 Credit	1939 Debit
Merchandise	+1,009.7	−796.4	+847.1	−665.2	+933.6	−731.6
Gold	+ 145.1	− 0.1	+156.5	—	+184.4	—
Tourist Trade	+ 294.7	−124.4	+282.7	−121.0	+275.0	−110.0
Interest and Dividends	+ 78.8	−325.0	+ 66.0	−317.0	+ 53.2	−314.0
Freight	+ 111.7	−137.2	+ 79.6	−105.0	+ 86.0	−126.8
Miscellaneous Services	+ 25.2	− 63.9	+ 23.4	− 66.9	+ 29.1	− 69.9
Total Credits and Debits	+1,665.2	−1,447.0	+1,455.3	−1,275.1	+1,561.3	−1,352.3
Capital Account						
New issues and retirements of securities	+ 89.5	−177.9	+ 88.6	−150.5	+144.5	−234.7
Sales and Purchases of outstanding securities	+506.6	−511.4	+369.2	−340.3	+311.0	−238.9
Other capital movements	+ 24.0	−129.6	—	−102.0	—	−144.0
Net Outward Capital movements	+620.1	−818.9	+457.8	−592.8	+455.5	−617.6
Residual Item	+ 19.4		+ 45.2		+ 46.9	

Kingdom, Russia, Germany, France, Japan.[7] The Canadian national income per capita was exceeded only by that of the United States in 1929, although in 1937, in part as a result of the drought, Canada was in sixth or seventh position.[8] Industrially Canada is ranked eighth in the world (although only thirtieth in population); Canadian railways are the fourth largest in the world;[9] and the volume of shipping from Canadian ports is about the fourth largest.[10]

These details are highly significant illustrations of the Canadian economy and of the role which Canada plays in international business. It is only by playing this role that Canada can maintain anything near her present standard of living and can support the great capital investment which has been made to equip her for this role. Because Canada is one of the least self-sufficient countries in the world her prosperity and her very existence depend on making the most of her own specialized resources, and on trading them as advantageously as possible for her other requirements. Her success will depend not only on her own skill and efforts, but also on the continuation of an interdependent and integrated international system of trade and finance. Everything which tends to restrict the operation of that system, such as barriers to the international movement of population, goods or capital, or the detachment and artificial isolation of large blocs from the world economy on a self-contained basis, reduces the scope for an advantageous international division of labour—the principle on which the existing Canadian economy and standards of living are built.

[7] But the per capita figures are higher in some smaller countries:

Per capita Gross Trade, in order of size of countries with larger per capita aggregate than Canada—1937

	$
1. New Zealand	323·94
2. Belgium	214·93
3. Denmark	192·93
4. Norway	179·61
5. Netherlands	175·22
6. Switzerland	174·37
7. *Canada*	174·01

Source—Condensed Preliminary Report on Trade of Canada, 1938-39, pp. 46-48, and League of Nations Reports.

[8] NATIONAL INCOMES PER CAPITA, 1937
(In U.S. $)

	At Present Exchange Rates	At 1929 Parities with U.S. $
U.S.A.	536	536
U.K.	500	491
Australia	434	529
Germany	421	249
Sweden	380	398
New Zealand	412	503
Canada	377*	377

* Income Produced Method as estimated by the Bank of Nova Scotia as more comparable with incomes reported for other countries than Commission's calculations.

[9] Canada has the fourth longest railway mileage, ranking after U.S.A., Russia, and India, and the fourth largest ton mileage of traffic, ranking after U.S.A., Russia and Germany.

[10] The registered tonnage of vessels clearing with cargo in 1935 (latest available year) was largest for the U.K., next for the U.S.A., next for France, and Canada was almost exactly the same as Germany, Spain, and Belgium.

8335—12½

A very brief review of Canada's resources in relation to the international economy will make clear why Canada plays such a relatively large part in that system, and is so profoundly dependent on it. Canada can produce large surpluses of many agricultural products (cereals, potatoes, apples, cattle, pork, and dairy products), of many forest products (pine and fir lumber, spruce and poplar and balsam pulpwood), of many mineral products (gold, silver, copper, nickel, lead and zinc), and hydro-electric power more cheaply—i.e., with the application of relatively less capital and labour—than can be done in most other countries. On the other hand, either Canada cannot produce, or cannot produce as cheaply as some parts of the world, her own requirements of such essential industrial raw materials as iron, coal, oil, rubber, and tin; of tropical fruits, fibres, and other natural products; and of many iron and steel, chemical, and textile manufactures based on special local resources and techniques. Every country could display a list of surplus and deficit resources, but in few would both sides of the balance sheet contain such basically important products in such volume, and in few would the extremes be so great. Thus Canada is at once the world's largest exporter of wheat, newsprint and non-ferrous metals, and one of the world's largest importers of coal, oil and steel products. It is in this distribution and peculiar character of Canada's resources, and in her lack of resources, that we find the explanation for many of Canada's distinctive economic, and related public finance, problems.

Some of the salient characteristics of Canada's trade may be noted. Both the staple imports and exports are mainly bulky, relatively low-value articles, and the sources of supply are distant from the markets, and therefore cheap transportation is of vital importance. Of the chief staple exports, wheat required a very large capital investment in handling and shipping facilities and to-day requires an increasing capital investment in facilities for mechanized production. The forest and metal products, partly because of the technical character of Canadian resources, also required a very large capital investment in plant and in associated hydro-electric power developments. If these resources were to be developed at all, they had to be developed on the largest possible scale in order to secure the economies of mass production and to contribute to the support of the heavy initial overhead. But in order to achieve this end very large foreign markets were necessary; Canada produces five times her own consumption of wheat (excluding seed requirements

for export); ten times her own consumption of her chief forest product—newsprint; and twenty times her own consumption of her non-ferrous metal production. It is this surplus production which is necessary in order to bear the total overhead cost of developing these industries, and to keep unit prices down to competitive levels. As a result of this kind of development Canada now supplies about 40 per cent of the world export wheat market, two-thirds of the newsprint in the world export market, and 40 per cent of the non-ferrous metals in the world export market. Canadian production of these products is a very much smaller fraction of the total world production, and many countries, which are of some importance in the world market and consequently to Canada, are almost self-sufficient.

In other words, Canada, in spite of her comparative productive advantages, is pushed into the position of being a marginal source of supply for many of these commodities. If a country which is producing 90 per cent of its requirements and importing 10 per cent is forced, or deliberately chooses, to reduce consumption, the imported 10 per cent is likely to be the first sacrifice. Any substantial reduction in the proportion of the world market supplied by Canada is evidently bound to have profound effects on her ability to maintain competitive prices and support the huge investment made in expectation of large-volume production. In a period of world depression, of reduced purchasing power and of increasing trade restrictions, such as we have outlined in Chapter VI, the relative status of industries in this position suffers. There are weaknesses, not only because such a small proportion of their production is consumed domestically, but also because such a large proportion of the total international market is supplied by Canadian exports. Control of the marginal supply normally gives a bargaining advantage to the seller on a rising market, but reacts to his disadvantage on a falling market. The situation has been intensified by the continual narrowing of the international trading world in recent years, which has led to more abrupt and extreme price fluctuations than would occur in a broader market. When protected domestic industries develop in former markets, or when depression or war restrict demand for Canadian export staples, there will be excess productive capacity, and far more than the proportionate share of the excess capacity will inevitably appear in Canada.

The import staples, however, are in a somewhat different position. Large as are Canada's imports of basic industrial raw materials (such as coal, oil and iron) in relation to Canadian consumption and even in relation to total world trade in these products, they are but a very small fraction of the total production, and of their consumption in the domestic markets of the chief producers. A fall in the Canadian demand is important, but is not likely to have the same shattering effects on prices as a fall in the foreign demand for the chief Canadian staples.

The great bulk of Canada's trade is with the United States and the United Kingdom. This is a natural corollary of the distribution of resources and organization of the economy in each of those countries and in Canada, and is intensified by the virtual withdrawal of most of the rest of the world from the former international trade system. Canada's geographical position and special relations with each of these countries are responsible for certain advantages and elements of strength, but there are also some liabilities. Canada's trade with both the United Kingdom and the United States is of vastly greater importance to Canada than their trade with Canada is to them; Canadian exports to the United Kingdom and the United States are between $30 and $40 per capita in each case, as compared with their exports to Canada of between $2.50 and $4 per capita. Canadian trade with the United Kingdom is 30 per cent of total Canadian trade, while United Kingdom trade with Canada is only 5 per cent of her total trade. Canadian trade with the United States is 50 per cent of Canada's total trade, while American trade with Canada is only 15 per cent of total American trade. This great degree of concentration of Canadian trade has elements of weakness and danger, and changes in the trading policies of either of the two large countries, or automatic changes in the terms of trade in response to differential price movements, inevitably affect Canada relatively far more than they affect the United Kingdom or the United States. Because of the greater vulnerability and lack of diversification, Canada's bargaining position is on occasion weakened and she is put at a disadvantage in opposing unfavourable policies or in negotiating for more favourable policies.

But quite apart from the danger of directly unfavourable policies, which may be due to factors quite unrelated to Canada but which may incidentally deal Canadian trade shattering blows, is the inevitable swing in the terms of trade. Canadian trade with both the United Kingdom and the United States is of a complementary nature, and is a classic example of the working of a basically sound international division of labour. While

Canadian cereals feed Britain, British textiles clothe Canadians; while Canadian products of the forest and mine, processed by hydro-electric power, feed the industries of the United States, the coal and iron products of the United States equip Canadian factories. But in any exchange of this nature there may be, and are likely to be, wide variations in the price trends of the various classes of products, and Canada may at any time find the prices of most of her exports declining more rapidly, or rising more slowly, than the prices of what she buys; or the reverse situation may result. Because her trade with the United Kingdom and the United States is relatively of much greater importance to Canada than Canadian trade is to those two countries, because of the much more specialized nature of Canadian exports, and because of the lack of diversified markets, variations in the terms of trade are much more important to Canada than to her two chief customers and suppliers. In times of depression both the United Kingdom and the United States can look to some important increases in the real value of their exports (and of their other income from abroad) to help temper the wind to the shorn economy, but Canada finds the impact of the depression intensified by the fall in the real purchasing power of the bulk of her exports. (In the last decade gold has been an important exception.)

In all other external transactions Canada is also vitally affected by the policy of the United Kingdom and, even more, by that of the United States. As we have noted, these transactions bulk extremely large in relation to total Canadian income. The large investments of British and American capital made to equip and exploit the economy; the contra investments of Canadian capital in foreign securities and enterprises; the integration of a large portion of Canadian manufacturing, finance, service and amusement industries with those of the United States; the huge seasonal tourist exchange, the periodic migrations of labour, farmers, and professional men and the continuous exchange of individuals; the existence of international labour, business and professional organizations; all these generate a continual ebb and flow of funds on a very large scale, and a continual process of adjustment of prices, costs, and profits. The transactions on account of the "invisible" items in the balance of payments on current and capital account with the United States are far larger than the total transactions on merchandise account, and in some ways may have an even more direct effect on comparative price levels, and thus eventually on purchasing power parities. In some respects it is as difficult, and as artificial, to isolate the Canadian balance of payments as to isolate that of, say, the State of Pennsylvania, but in other respects there are Canadian policies in operation which do segregate the Canadian economy. These policies, however, cannot completely control the Canadian economy; they can only modify the impact of external influences on it. As has been indicated, these external influences are of great magnitude, and in experience Canada has followed virtually the full swing of violent fluctuations in the United States, modified only slightly by the greater stability of the United Kingdom. A vital difference in the impact of the notoriously abrupt and extremely fluctuating North American business cycle on Canada and on the United States is the substantially higher net income of the latter.[12] The relative fluctuations in business activity and in per capita income are approximately the same[13] in the two countries, but the Canadian fluctuations occur around a much lower average income, and Canada lacks the impressive reserves of diversified climate and resources, and of a huge internal market which distinguish the United States. In short, Canada is compelled to accept the full measure of fluctuation which accompanies the highest standard of living in the world—without as high a standard of living to absorb it. There are certain physical and climatic disabilities and limitations which would appear to make higher costs and lower net incomes permanent conditions in Canada as compared with the United States.

Canada's balance-of-payment transactions, other than trade, tend to transmit the full extent of economic fluctuations in the United States to Canada, and there are also some special features arising from the nature of these transactions which intensify the pressure on the economy in times of depression. The most important item on the income side is that of tourist expenditures, which are luxury expenditures and likely to be drastically reduced in time of depression. On the payment side, the most important item is that of interest and dividend payments—a major portion of which is a fixed amount, and a large portion of which is due from Canadian governments. The dollar amount of this

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[12] PER CAPITA INCOME

(Income Paid Out)

	Canada	U.S.
1929	$470	$679
1933	246	360
1937	345	536

[13] 48 per cent decline in U.S. national income and 44 per cent decline in Canada's national income from 1929 to 1933.

payment can only be substantially reduced by widespread default, with all the long-run penalties which that entails, and in a period of falling prices the real burden increases. If in addition to falling prices there is also a fall in the exchange value of the Canadian dollar, the real burden of the large portion payable in foreign currencies increases even more. It is true that in the latter case there will tend to be a larger favourable balance on merchandise trade account, but the gains and losses will be unevenly distributed, and the increased burden of debt charges will put additional stresses and pressures on certain sections of the economy. In several years during the twenties Canada was on balance a capital exporter, and even in years when Canada was borrowing heavily abroad there was a cross current of Canadian investment abroad. But Canadian investments abroad went largely into equities, and often into merely margins of equities in the New York market, and into industries in Latin American countries which had economies every bit as vulnerable to world depression as that of Canada's. As a result Canada suffered heavy losses both on capital and income on her own foreign investments while she continued to meet the major portion of the debt payments due abroad. In the thirties favourable balances were used largely to retire Canadian debt rather than to make new investments abroad, and there has been an important reduction in the amount of outstanding debt payable in foreign currencies.

To summarize, Canada's position in both her trade and other financial relations with the outside world is largely that of her position in relation to the United States and the United Kingdom. This position is similar to that of a small man sitting in a big poker game. He must play for the full stakes, but with only a fraction of the capital resources of his two substantial opponents; if he wins, his profits in relation to his capital are very large, and if he loses, he may be cleaned out.

Canada's position in the world economy has both strengths and weaknesses. As long as it is correct to speak of a world economy, or even a partial world economy, in which any substantial measures of international division of labour and trade are permitted, Canada should enjoy a particularly high export income and national income, thanks to her possession of a few special resources. The provision of productive capacity to exploit these resources has involved heavy fixed charges; deficiencies in other resources and efforts to maintain past standards of living involve certain essential imports on a large scale. We have thus a picture of a normally high income and of high fixed costs, but even under normal conditions the income is likely to fluctuate much more sharply than the costs. Because of the character of Canadian resources, and of the nature of Canadian trade and other financial relations with the United Kingdom and the United States, fluctuations in gross income, and consequently even more in net income, at either extreme of the business cycle reach relatively huge proportions.

It is scarcely necessary to add that if the international trading system in which the Canadian economy was designed and built as an integral part should be further restricted, a new appraisal (which would be distressing) must be made of Canadian resources and of the Canadian position. Our "boundless resources" are worth only what we can sell them for. If the system under which we exchange our surpluses for our requirements breaks up, our surplus and chief staple resources will cease to be resources; the whole structure of government and private investment based on them will collapse; and our conception of a "normal" or attainable Canadian standard of living will have to be drastically revised.

2. Canada as an Economic Unit

In spite of the fact that the major Canadian industries are a part of an international economy, certain national policies have been adopted and national responsibilities have been assumed which create a distinctively Canadian framework within which Canadian industries operate. The framework is not a simple structure, largely because national policies have been aimed at two major objectives—the expansion of export staple industries, and the development of a protected domestic economy—which, although they have sought to achieve a common national purpose, were directly opposed to each other economically. The compromises which had to be adopted to reconcile divergent interests frequently destroyed the logical symmetry of either policy. Nevertheless certain common conditions affect all Canadian industries and, in spite of basic divergencies in interest, there is sufficient homogeneity to consider the Canadian economy as a unit. It is the purpose of the present section to examine the framework of national policies and responsibilities, and the influence which they have had on the form of the economy.

In the preceding chapters we have described how and under what conditions that framework was

established. The events and circumstances which brought Confederation into being were not by themselves sufficient to ensure the maintenance of the union. In fact if the mutual interests and economic cohesion required for the growth of national unity, and the preservation of the political independence of the new transcontinental nation in North America were to be developed, the new Federal Government had the responsibility of devising and carrying out an appropriate economic program. It was necessary to link together the isolated regions with railways, to create a basis for internal trade, and to promote the development of the unsettled West as an integral part and a dynamic influence in the Canadian economy. It was for the accomplishment of these objects that the basic national economic policies of all-Canadian transportation, Western settlement and industrialization by protective tariffs were adopted during the first twenty years of the Dominion's history. These particular policies were not of course undertaken in response to any deliberate plan carefully thought out in advance to achieve the best possible results. They were rather the outcome of an evolution of political decisions which were strongly influenced by the requirements of politically workable compromises and by immediate circumstances. With a different course of events, perhaps a different set of policies would have been adopted to achieve the same general objectives. Perhaps a different set or a different emphasis would in any case have been desirable. That is not for us to say. We shall merely attempt to point out the significance of what was actually done (without going into all the day-to-day manœuvres and detailed compromises which were necessarily involved) in relation to certain broad national aims, and the effect on the nature of the Canadian economy.

We have seen how the national economic policies were put into effect and ultimately achieved their purposes under the influence of the wheat boom and the demands of the Great War. Three transcontinental railways connecting the various regions across long and difficult stretches of unproductive territory were built at tremendous public cost in the form of direct assistance or guarantees. The West was filled with settlers whose products and purchases created a rising volume of traffic moving over the railways and waterways through Canadian channels. The protective tariff directed the demands of the great exporting industry on the Prairies to Canadian producers and promoted a rapid growth of manufacturing in Central Canada. Thus the hitherto isolated regions were drawn together with an expanding flow of internal trade and economic integration. The transcontinental Canadian nation achieved a new level of prosperity, political security, and unity.

In the pursuit of these ends the three economic policies operated to effect a series of compromises which had a consistent objective; no one policy was complete in itself. Without the construction of all-Canadian transportation facilities and an appropriate structure of freight rates (and the huge public assistance which that entailed) each of the regions would have linked up with the railway systems of the United States. The connections between the various parts of the country would then have been made through the economically and politically aggressive neighbour to the south. This development would have been much less costly; it would have avoided the vast overhead of bridging great physical barriers; and it would have enabled the most intensive use of facilities already available. With the lower costs which this would have permitted, the export industries would have expanded further, the rise in the value of their natural resources would have been greater and the income obtained would have been larger. There would, however, have been no secure economic basis for a Canadian nation. Hence purely economic criteria were put aside for the creation and maintenance of a political entity. The same was true for the tariff, which in large part was complementary (although on purely economic grounds contradictory) to the settlement and transportation policies in the furtherance of this purpose. The railways and government assistance would have brought about the development of unsettled areas, but that by itself was not enough. Under free trade or with a much lower tariff the greater portion of the requirements of manufactured goods would have come from the United States. Each of the separate regions would have established its principal commercial relations with the external world rather than with the other regions. Traffic, excepting bulky exports for overseas, would have moved north and south. The tariff was designed to direct the demands into Canadian channels so as to provide east-west traffic to help support the vast overhead of the transcontinental railways and to furnish a stimulus to expansion in the older provinces who initially undertook the risks and heavy debts of the railway and developmental programs. Thus each of the three policies has exerted a consistent and an essential influence in the attainment of the national purposes. It is true that the tariff tended to

restrict the growth of exporting industries which the railway and developmental policies sought to promote. Some examples are worth noting of the ingenious compromises which have been developed in the tariff system in an effort to reconcile conflicting interests; a three-deck structure, and in some instances a four- or five-deck structure, has been developed to facilitate bargaining and negotiation with individual countries, and to aid the national transportation policies by directing traffic east and west through Canadian ports and over Canadian railways. Special exemptions are given for some of the machinery and supplies for the primary export industries (although not for construction machinery and other construction materials, and for some industries with differential advantages, such as hydro-electric power). The rates on manufactures are graduated according to the degree of processing and by giving greater protection on the final processing, assembling or finishing than the simple rate (which applies to the total value of the product) would indicate, attract and nourish branch plants from a great many American industries. Drawbacks provided for material used in manufacturing for export, coupled with individually designed provisions concerning the required manufacturing industries, give these industries an opportunity to compete in export markets (and reduce their overhead unit costs). Seasonal tariffs and artificial valuations for duty purposes are provided to protect domestic fruit and vegetable producers when their crops are ready to market. These and other special provisions vividly illustrate both the difficulties and compromises which were involved in applying a protectionist policy to the Canadian economy.

Without the higher costs imposed by the tariff the developmental policies would have been even more effective in stimulating the exploitation of Canada's resources for the sale of their products abroad, but that result, without the enhancement of internal trade, would by itself have weakened rather than strengthened the economic and political cohesion of the country. On the other hand, the tariff alone could have done little to create a basis for inter-regional trade without the markets provided by expanding export industries. Each of the national economic policies was by itself incomplete, and on purely economic considerations, contradictory to the others. Together, they have blended in a general policy which has built an economically integrated nation and they have on the whole sought to promote the realization of consistent national objectives by which general prosperity and political unity could be achieved.

While the three national economic policies were in the main complementary, one or the other has at times been carried too far. The careful balance necessary for the attainment of optimum political and economic results from the major economic policies to which the country was committed has not always been maintained or appreciated. Mistaken optimism and regional pressures caused the over-extension of railways which has burdened the country with a needless overhead and encumbered the Dominion's finances with heavy fixed charges. The provision of essential all-Canadian transportation facilities would necessarily have involved large overheads and it was, therefore, all the more imperative that wastages should have been avoided.

For over forty years the Canadian tariff remained at a moderate level. During this period its provisions were gradually modified and adapted to the changing circumstances of the economy. The British preference was introduced, the rates on the implements of production of expanding export industries were reduced and special contrivances were adopted to enable the Canadian manufacturing industries to benefit from the technical and industrial progress of the United States. Thus on the whole no excessive restrictions were imposed on the growing export activities which constituted the basis of the economy, while at the same time a considerable manufacturing industry was built up. However, this careful balance and the cost price relationships which were established during four decades were suddenly broken by the sharp increase in protection during 1930-33. This unfavourable alteration in the circumstances of the export industries is particularly noteworthy since it occurred at a period when export prices were falling rapidly. The country was put into the position of carrying excessive debts incurred to promote the development of export production, while at the same time restraining the growth of such production by drastic tariff restrictions. Such extreme contradictions of policy were bound to reduce the real national income below what it would otherwise have been. Perhaps there may have been non-economic considerations which justified this high economic price. As debts pile up and the rate of expansion slows down the cost will become increasingly difficult to bear; it will place an increasing strain on public finance and consequently on Dominion-provincial relations.

While prices are rising and the national income is growing rapidly, overhead costs are easily borne and there is little conflict over the precise share of each region or industry in the total income. When prices are falling or the growth of the national income is halted, fixed charges and the weight of taxes arising out of extreme contradictions of policy may quickly become oppressive and there is likely to be increasing inter-regional friction with regard to those policies and the division of the total income.

During the first fifty years of Confederation the national economic policies operated as strongly cohesive influences in the Canadian economy. This success was mainly dependent upon the rapid growth of the wheat exporting industry of Western Canada. We have already recounted in Chapter V how during the twenties the unifying effects of these policies were weakened by the decline in the rate of expansion on the Prairies. With the onslaught of the depression this condition was greatly intensified. Drought and shrinking export markets for wheat brought almost a complete breakdown in the strongest dynamic factor making for east-west integration. Each area turned more than ever to the establishment of a more self-sufficient and independent regional economy. The possession of northern hinterlands with rich mineral deposits, the invention of new mining and metallurgical techniques, and water power have made possible the development of new northern frontiers for all but the Maritime Provinces. The separate regions established new contacts with external markets which rapidly decreased the relative importance of their economic relations with one another. In these circumstances the national economic policies were a limiting rather than an expansive influence. The railway policy no longer had any positive objectives. The new transport technique of the motor car has called for highway rather than railway expansion. Under these conditions leadership in the fields of transportation and development passed from the Dominion to the provinces. The Dominion was left to cope with the rising railway deficits.

The railway deficits were not the only consequences of the national economic policies with which the Dominion had to deal during the depression. When the industries which the national policies had helped to establish fell upon evil days, they naturally looked to the Dominion for assistance. The manufacturers called for higher protection against cheap imports. Western agriculture asked for relief and subsidized prices. The Dominion could not completely avoid responsibility for alleviating distress of interests which it did so much to create. The implications of this are clear in the steeply rising expenditures of the Federal Government during the depression.

Thus during the twenties and thirties the national economic policies ceased to produce their former expansionary and cohesive effects and gave rise to a set of difficult national problems and responsibilities. Yet they could not be sharply reversed since the economic, and to a considerable extent, the political unity of the country was still basically dependent upon them. Furthermore, great vested interests have become established under their influences. The adaptation of these policies to the changing circumstances of the present and the future will require the highest qualities of statesmanship. Above all, the pursuit of objectives involving extreme and unnecessary economic contradictions must be avoided. Wastages must be minimized, particularly in the field of transportation where solutions to the problem of railway deficits and to the problem of highway and railway co-ordination have yet to be found. In the making of tariffs there must always be the clear realization that the economic welfare of the country is, and will continue to be, basically dependent upon the prosperity of the export industries. The problems of public finance and of Dominion-provincial relations in the future will be closely related to the extent to which these considerations prevail.

Monetary policy, in the broadest sense of the term, has only recently become a part of the framework of national economic policies which we are discussing. In the past, the policy of the gold standard had always been implied, and accepted unquestionably, as the only conceivable basis for development. This was virtually a required condition for a Canada which was part of an international gold-standard-and-trading economy, and it facilitated the rapid adjustment of prices and costs which was essential for a country in its position. The chief concern was the evolution of a banking system which would meet the very special and seasonal requirements of the Canadian economy within the framework of the gold standard. The highly centralized but elastic system of banks operating on a national scale which developed, was remarkably successful in this respect. It was only when the gold standard broke down and national currencies began to drift about in apparently aimless and alarming fashion that any question arose (and even then it arose some-

what belatedly) as to whether Canada needed a monetary policy of its own and adequate machinery to carry it out. The creation of a central bank provided the machinery, but conflict over the ultimate objectives of policy remained. The opposing forces were not, however, exactly the same as those engaged in the conflict over trade and tariff policies. Export industries generally stood to gain from a measure of exchange depreciation, while protected industries competing with imports were generally bound to do so. The lines of conflict were not clearly drawn on either a regional or an industrial basis; it was rather a struggle between owners on the one hand—owners of farm, mine, and forest resources, and of equities in industry, who depended on entrepreneurial net income—and recipients of relatively fixed incomes on the other hand—bond and mortgage holders and wage earners. Owners and debtors naturally favoured a higher price level; salary- and wage-earners and creditors, a lower price level. The very novelty of this division of interests, which cut across traditional class and regional groupings, delayed its recognition. Variations in individual circumstances also confused the actual issues at stake. We have noted how the wheat exporters, for example, in desperate straits in the thirties pressed for some measure of exchange depreciation although it was very doubtful whether under prevailing conditions it would have yielded any net advantage to them. Protected industries, on the other hand, which were much more likely to benefit were in general inclined to lean on the tried and proven method of increased tariffs (which was not available to the exporters) and, perhaps partly because of their close relations with large creditor interests, to view any experiments in inflation or exchange depreciation with suspicion and alarm.

But to-day much of the initial surprise and confusion has passed, and it is recognized that the purchasing power of the dollar not only can be deliberately altered but that it is at times expedient, and now considered almost respectable, to do so. But while the direct results of such action on individual interests are now more clearly understood, the effects on the economy as a whole, or sectors of it, remain largely matters of surmise. For one thing, these effects will depend on action (and reaction) in other countries; for another they will depend on the relative bargaining position at the time of the different interests affected, either favourably or unfavourably, and their ability to pass on the losses or retain the gains; and they will also depend on the nature of the other economic polices adopted by the Government. But monetary policy has become one of the agencies by which the Dominion affects economic life and income in all parts of the country, and which makes Canada for certain purposes an economic unit.

Federal policies of taxation and expenditure form one of the most important groups of conditions which mould the development of the economy. These powers and functions have steadily grown in importance with the expansion in the scope of governmental activities, and it is important to note the manner and degree in which the public finance system in itself affects the economy and either stimulates or depresses the national income. The public finance system also provides a means of compensatory adjustments and transfers to counteract the adverse effects of other national policies. When, as a result of national policies undertaken in the general interest, one region or class or individual is fortuitously enriched and others impoverished, it would appear that there is some obligation, if not to redress the balance, at least to provide for the victim, and policies of taxation and public expenditure offer a convenient means. But as the field of public finance is shared by the Dominion with the provinces and their municipalities, the division of the field of taxation and the distribution of jurisdiction and hence of responsibility, have a major bearing on the equity and efficiency of the Dominion's public finance system, and of the public finance systems of all governments considered as a whole. For these reasons, and because of the basic importance of this particular subject to the Commission's inquiry, a separate chapter is devoted to a review of the present public finance system.

3. The Regional Economies

The international role of Canada and the national policies which have moulded the economy have been reviewed in the preceding sections and chapters. But as Canada is half a continent, she has very diverse regional characteristics and interests; and as a federation, she has different governmental systems for representing these interests and for carrying out regional policies of economic significance.

Economically Canada can be compared to a string of beads, and they are not all pearls. It is a long string in which the concentrations of productive resources are few and far apart. It has become traditional to speak of Canada in an economic sense as consisting of five regions,—the Maritimes, Quebec, Ontario, the Prairies, and

British Columbia, and in the main economic interests do tend to follow these regional lines. In many instances, of course, economic interests cut across regional boundaries—many sections of Quebec, for example, are more closely related economically to Saskatchewan than to neighbouring areas. Moreover, regional economies are constantly being modified,—Manitoba, for example, appears to be evolving toward the Ontario-type of economy, and away from the prairie-type. But each of the major regions has sufficiently distinctive characteristics to warrant separate discussion.

There is the more reason in view of the fact that the constitutional division of powers gives to the provinces important powers which may have a profound effect on the economy—control of the public domain, responsibility (implied if not express) for major social services and for local public works and highways, the power of direct taxation which has been broadly interpreted by the courts and which has been partly delegated to municipalities, and the power to borrow on the sole credit of the province. There is thus an important field in which each provincial government can influence its regional economy, and there are important functions in that economy which it must perform. The nature of the regional economy in each case is also of importance in determining the economic and public finance policies of a provincial government, and the degree of integration with, or conflict with, national policies that is likely to develop. It will be an advantage, therefore, to examine briefly the characteristics of the various regional economies and provincial economic policies.

The Maritimes

The Maritimes form the most mature, and the most chronically depressed, regional economy in Canada. Previous chapters have traced the long history of painful adjustment from the Golden Age, when wood and sail reigned supreme, to the present —a history in which the principal actors have been intangible but dynamic economic forces, playing on a stage set, and bounded, by national policies. Changing techniques and conditions of production, transportation and marketing affected the small but complex economy in diverse ways. A cross-sectional view today may indicate the factors which have determined the present economic position of the Maritimes, and suggest those which are likely to determine the future.

Perhaps the most significant feature, and one that has been an outstanding characteristic for a century, is the delicate balance of the economy, resulting from the interdependence and complementary character of the chief industries. This interdependence arises from the nature of the Maritime resources and is such that no one major industry can suffer, as did the shipbuilding and carrying trade after the introduction of steam and steel, without profoundly affecting the whole structure. Cessation of one of the major Maritime industries has much the same effect as taking a wheel off a tricycle.

Agriculture in the Maritime Provinces is a mature industry, and the relatively small proportion of land suitable for cultivation has long been farmed.[1] In the proportion of arable to non-arable land Prince Edward Island is an exception but even here the average acreage in improved land per farm is less than in Ontario and Quebec. Owing to the topography of Nova Scotia and New Brunswick even in the best areas only small pockets or strips along river valleys are suitable for cultivation, and as a result cultivated areas are isolated from one another and farms are small[2] and often contain a considerable proportion of waste land. Thus, it is difficult in the general agricultural industry to secure the adoption of improved agricultural practices, the production of high quality products, the maintenance of uniform standards, or the provision of economical marketing arrangements—in short, to attain a high degree of efficiency in farm management. As a result of the small scale of operation and the economic disabilities this entails, the individual surplus available to the individual after subsistence is small. Notable exceptions to these generalizations are dairying and the production of certain specialty, export staples—apples, potatoes and fox pelts. These export staples are the chief cash products and are dependent on foreign markets, foreign tariffs, and foreign purchasing power. As a result the returns from these products fluctuate widely and on occasion disastrously. While total farm income, including income in kind, fell by half from 1928 to 1932, net cash income fell by four-fifths. Only the greater degree of self-sufficiency in agriculture, and the more numerous alternatives for employment—although at very low incomes—prevented duplication of the complete destitution of prairie agriculture.

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[1] Of the total area, 30 per cent is in occupied farms, and 9 per cent in "improved land" (Census, 1931)—See Appendix— S. A. Saunders, ***Economic History of the Maritimes***, pp. 59-69 (Mimeographed).

[2] The average acreage of improved land per farm in the Maritimes (34 acres) is exactly half that per farm in Central Canada.

The primary industries most closely integrated with farming are forest industries and fishing, and these three F's form the basis for much of the processing and secondary manufacturing in the region. The farmer may work his wood-lot or, in areas where the pulp and paper industry or lumbering is of importance, work for the company on the annual cut during the winter months. Or he may combine farming and forest activities with fishing on his own account. In fact one-quarter of the farmers report their principal occupation as something other than farming (1931 Census) and one-sixth[1] of the gross agricultural income itself is derived from farm production of forest products.

In some respects forest industries and fishing fill the role of the frontier in the Maritime economy in times of depression. Individuals turn to these pursuits to augment or replace other income, since large portions of these industries are still organized on a basis of small, independent, and individual operation. In the fishing industry, for example, 10 per cent more were employed in 1933 than in 1929, and 20 per cent more in 1936, although total net income from the fisheries was two-thirds and one-third, respectively, less. The results of the interlocking relationship and great mobility of labour between the three key primary industries are, on the one hand, to communicate pressure on one industry very quickly to the others, but on the other hand to provide a degree of strength and insurance against complete destitution through the diversification and alternative employments provided.

The diversification is not as great as it might superficially appear, however, since farming, fishing and forestry have certain basic economic characteristics and disabilities in common and are all likely to be adversely affected by the same forces at the same time. The price structure and cash income of each industry is largely determined by uncontrollable developments in external markets and by foreign tariff and trade policies; the amount of assistance which can be given by national policies to the staple export industries when they are in distress has appeared in the past to be very limited; and the small scale and individualistic methods of operation has militated against securing the most economical and efficient methods of production and marketing and against the maintenance of high quality and uniform standards. With certain exceptions, such as the specialized apple, potato and fox industries where pre-eminent standards of quality have been developed, and the pulp and paper industry where mass production methods can be applied, the Maritime economy in general labours under these disabilities, and they are reflected in a very low surplus income.[1]

Manufacturing industries, which are based to a considerable extent on processing local raw materials, have suffered from the same disabilities, combined with pressure from the attraction of the larger markets of Central Canada for the newer industries, and from the depletion of some resources and from economic changes which have reduced the relative value of others. The relatively new pulp and paper industry is, however, a notable exception. National tariff policies have probably operated unfavourably in general, since Maritime manufacturing industries producing for home consumption have been exposed to the competition of the more advantageously located manufacturing industries of Central Canada; Maritime primary industries have been burdened with increased costs; and the great shipping, commercial, and financial service industries, which bulked so large at the time of Confederation, have either found it impossible to adapt themselves to changed techniques and the framework of national policies and survive, or have migrated to Central Canada. On the other hand, specific industries, of which coal mining and steel manufacturing are the outstanding examples, have benefited directly from national tariff policies and subventions for transportation, and special consideration in Dominion transportation and trade policies has been made for the benefit of the ports of Halifax and Saint John. Just where the balance lies cannot be precisely determined. To the extent to which the shift in manufacturing and service industries produced lower costs for Maritime consumers it was beneficial, but to the extent to which national policies made it impossible for the Maritimes to preserve and exploit whatever advantages they had, they were harmful. However, to a large extent the relative decrease in manufacturing in the Maritimes (from 13½ per cent of the gross Canadian production in 1870 to 4½ per cent in 1935) was simply a reflection of the passing of village-handicraft industry, and the concentration of industry in large-scale, highly mechanized units at the site most economical for production.

One important element of Maritime industry has received very large and important benefits from national policies—the closely related coal mining and steel manufacturing industries.[2] The Maritimes possess the only coal deposits on the North

[1] Seven per cent in Central Canada (1937) and negligible in the rest of Canada.

[1] See Appendix 4—*National Income.*

[2] One-fifth of the population of Nova Scotia is directly dependent upon its coal industries and subsidiaries.

Atlantic seaboard; of these the Nova Scotian fields are by far the most extensive and valuable. But their coal resources possess few other natural advantages. Because of the physical character of the deposits (half the tonnage is now raised from submarine mines, the seams are frequently faulted, and problems of raising, pumping, and ventilation are particularly important) operating costs are relatively high. In addition, the coal industry has had to face the same difficulties that have oppressed the industry the world over—the growth in alternative fuel and power sources (oil, natural gas, and hydro-electric power), and economies in the use of coal through improved processes and better equipment. The steel industry has also been adversely affected by the shift in demand from heavy railway steel to light consumers' goods, in which proximity to the market is a great advantage. The Dominion tariff on coal, the Dominion subsidies for coal used in gas and coking plants, the Dominion subventions for the transport of coal to Central Canada (which consumes nearly half the total Maritime output), the Dominion tariff on steel and special assistance to steel industries (which consume one-quarter of the Maritime coal) have alone made possible the maintenance of the industry on anything approaching the present scale. The transportation subventions and other direct forms of assistance of some $2·3 million in 1937 were more than three times the amount of royalties and taxes collected by the provincial governments; the tariff of 75 cents per ton is approximately 20 per cent protection.

The alternative and diversified openings for employment and the small-scale individualistic character of business organization, which are so characteristic of the Maritime economy, have made mass unemployment and destitution less likely than in the more highly industrialized areas of Canada. Under the impact of unfavourable external factors whole industries may be reduced to very low levels, but still manage to provide a measure of subsistence. Certain specialized areas, such as the coal and steel district, are more vulnerable and their unemployed cannot readily find alternative employment at any level. But if unemployment has not emerged as a social problem on the same scale as in other parts of Canada, certain other social problems are more advanced. One is the greater proportion of elderly people who require assistance through old age pensions; another is the number of "special areas," such as the fishing villages, where chronic impoverishment resulting from years of continual economic pressure and difficulties in the industry is reflected in inadequate education, public health, and other public welfare services; other problems are those of depleted and submarginal resources, and of inefficient methods of production and distribution, problems which call for research, economic planning and improved co-operative organization, whether through independent voluntary agencies or by governments.

Yet the very factors which create these wants reduce the taxable capacity of the area and make it difficult for governments to provide for them. Where such a large proportion of the income of the primary industries is income in kind, where the cash proportion fluctuates so sharply, and where there are no large urban, industrial, and financial concentrations of wealth and surplus income, the tax gatherer's problem is a difficult one. Too much of the Maritime industry is now in a marginal position to make an increase in taxation on consumption and costs desirable, and too few Maritime industries produce sufficient surplus earnings to make direct taxation on net profits and incomes remunerative.

Nevertheless, in recent years Maritime governments have undertaken a relatively huge and ambitious capital program designed to strengthen the economy and alleviate existing distress. In 1937 expenditures by provincial governments alone on capital public works equalled 7 per cent of the total "national" income in the Maritimes. These expenditures were financed by borrowing, largely from outside the Maritimes, and they have had profound effects on both the present position and future outlook of the Maritime economy and public finance system. The very large capital expenditures, chiefly on highways, have benefited the construction industry, and through it large sectors of the economy. Construction activities have absorbed virtually all unemployed employables in the area and have afforded part-time employment and cash income in some of the distressed agricultural areas. The provision of a modern highway system will also have important influences on the economy in the future. It is hoped that it will attract more tourist trade. It will certainly have an important impact on existing centres of distribution and on tributary supply and market areas. Whether it will produce a sufficient reduction in costs and sufficient increased income from new enterprises and extension of marginal activities to prove self-supporting in the long run is still impossible to say, but it is the most distinctive and important feature of the Maritime economy at the moment. Although a large number of industries and individuals and

the community as a whole have benefited from the program, and although aggregate figures of national income in the Maritimes have been prevented from falling proportionately as much as in other areas, it must not be overlooked that some groups and some areas, such as some fishing communities, have been reduced during depression years to distress scarcely exceeded in western drought areas.

To summarize, we find the Maritimes form a distinctive regional economy, with a large degree of self-subsistence and a very close and highly developed inter-relationship between the primary and many of the secondary industries, but largely dependent for cash income on a few specialized export staples which are extremely vulnerable to external conditions. The necessary small scale of operations in many industries, and the depletion of the best resources, are serious and continuing economic disabilities which are responsible for the low average income. The general effect of national policies has been to accelerate the natural shift of industry and finance, and of concentrations of wealth and income, to Central Canada, although specific industries (coal, steel, sugar, oil) have been bolstered up by tariff protection and other Dominion policies, and special assistance has been given the area by subsidizing railway freight movements and by subsidizing steamship lines, by diverting traffic to Maritime ports, and by extra subsidies to the provincial governments. At the moment the large capital programs of the Maritime governments themselves are the most important and stimulating governmental influences on the economy, but expenditures on the current scale cannot be continued indefinitely.

Quebec

Quebec contains such strikingly diverse regional economies that the area cannot be satisfactorily discussed in economic terms as a unit. Even provincial policies have had to adapt themselves to the differing regional circumstances, and consequently lack the simplicity and homogeneity found in some other provinces.

There are notably three distinct economies within the borders of Quebec. One is that which has grown around the Montreal metropolitan area, and which is one of the major integral parts of the transcontinental economy built by national policies. Montreal, it might be said, is the eastern bridgehead of the great east-west structure which connects the Prairies with the trade routes to the markets of the world. The major portion of Montreal's activities is based on handling and processing the staple exports (e.g., wheat to flour) and the staple imports (e.g. raw cotton to textiles) of the country. Dependent on and tributary to these activities are many ancillary industries—the provision of land and sea transportation services and equipment, brokerage and banking services, local agricultural construction and supply industries, and amusement facilities. The Montreal metropolitan area, and the industrial towns and agricultural and resort areas immediately surrounding it, thus form an integral part of the international trading system by which Canada lives. The fortunes of the area are as closely dependent on the successful operation of that system as are those of southern Saskatchewan. The national policies of transportation and development were designed to bring direct advantages from the exploitation of western resources to this area, and, through the development of domestic markets, to bring further advantages to the manufacturing strategically located there and fostered by national tariff policies.

An economy of another type is that found in the vast area north of the St. Lawrence where a scattered number of huge, modern, highly-mechanized, pulp and paper and metallurgical plants process local resources with local hydro-electric power. These plants are almost entirely dependent on external markets, and on the maintenance of the existing international division of labour, but they do not form an integral part of the traditional national trading system and economy as does the Montreal area. Their connections with their markets are much more direct and simple, and although each unit has all the vulnerability of any highly specialized producer, they are not interlocked with and dependent on other factors in the national economy to the same degree. Perhaps their chief economic characteristic in common is their dependence on cheap hydro power, with consequent high capital but low operating costs.

The third type of economy characteristic of Quebec is the pioneer subsistence agricultural area. Some of the frontier agricultural areas (e.g., Abitibi, Lake St. John) are complementary and tributary to the neighbouring mass-production, export units of the mining and forest industries and should properly be considered as part of the highly specialized, electro-product economy previously noted. But there are many regions—the North Shore and the South Shore of the Lower St. Lawrence, Temiscouata and Matapedia, Gaspé and la Baie des Chaleurs, the Gatineau, Labelle, and Mattawinie, where mixed farming, usually combined with seasonal forestry or fishing operations,

yields a relatively low but self-sufficient livelihood. The cash income of these areas depends largely on the sale of a few staple products in either local urban or export markets, and on tourist trade, but the failure to develop, or impossibility of developing, any notable specialties restricts income in these areas in general to the yield of their rather limited and submarginal resources, which are worked on a small scale and often inefficiently.

The foregoing analysis cuts across the more conventional industrial classification, but may help to bring out the particularly complex problems of Quebec's diverse regional economies and their relations to the national economy and national policies. The problems of the agricultural industry in the St. Lawrence Valley, for example, are of quite different nature from those of agriculture in the Lake St. John area, or, from those in Gaspé, and provincial policies which might be appropriate and desirable in one case are not necessarily so in another.

The Montreal area,[1] with its dependence on the transcontinental economy built by national policies, enjoys a high degree of prosperity when the economy is functioning as it was designed to do, and it was the natural point to which the excess population of the subsistence agricultural areas gravitated. The continual increase in the urban proportion of the population, and the actual depopulation of some rural areas, caused concern in the twenties, but it was not until the depression of the thirties that the full consequences of this development became apparent. The depression in the export industries, which was rapidly communicated to the heavy capital goods and construction industries, to railway and shipping business, and to a lesser degree to consumers' goods industries, hit Montreal directly. The drastic tariff increases of 1930 helped to maintain employment in some of the secondary industries at the expense in the long run of the primary industries on which Montreal depended. But with the shutting off of emigration to the United States and the West, the pressure of the enforced rural exodus on Montreal was intensified, and a huge pool of unemployed, and largely unskilled, labour collected there. It early became evident that unless progress along the traditional lines of Canadian expansion was rapidly resumed Montreal unemployment would become chronic and the hard core of the Canadian problem. When a measure of recovery in Canada did occur it came largely from expansion in new industries and frontiers which cut across the established national pattern and, although secondary Montreal industries benefited to some extent, the basic situation was scarcely alleviated. Unemployment in Montreal and the satellite industrial towns of the area became one of the outstanding economic and human problems of the time, and seriously threatened the solvency of local finances. Efforts to alleviate conditions by national policies were chiefly through tariff action, and efforts by provincial and local governments were through public works and back-to-the-land policies, but none of these proved effective on an important scale. Montreal steadily lost ground to the rival metropolitan centre of Toronto with its close relationship to the new and expanding industries. Since the Montreal area's great asset is its strategic position in a highly developed trading economy, and since its own local resources and commercial advantages in domestic markets are limited and inferior to those of some other centres, this decline in relative position, perpetuation of serious unemployment, depressed property values, and pressure on local services and finances would appear to be likely accompaniments of any general reorientation of policy from dependence on international trade to greater domestic self-sufficiency.

The mass-production, mechanized, export units of the Saguenay, St. Maurice, Gatineau, and Rouyn areas also have had their particular depression problems. In general volume of production was maintained, but whenever a large plant was closed down the whole structure of the local economy collapsed, local labour lost its only employment, local agricultural, retail, and service industries lost their market, the local government lost its financial basis. Even when operations were continued they were made possible by reducing prices to sacrifice levels at the expense of the wage-earners, the owners and creditors of the business, and the governments which depended on it for revenues, and in some cases important resources were depleted and sold at bare salvage prices. The natural advantages and technical efficiency of these large units were great, but their bargaining position in time of depression proved weak. Not only is the whole population of Quebec north of the St. Lawrence Valley (some 400,000) directly dependent

[1] The Montreal area is used here to designate not only the Island of Montreal itself, which accounts for 60 per cent of Quebec's manufacturing, but also the industrialized area from Valleyfield to Levis and Sherbrooke on the south shore of the St. Lawrence, which in general has much the same economic characteristics as Montreal industry, and produces some 17 per cent of Quebec's industrial output. Textile manufacturing is the chief industry, followed by the processing of food and metal products. There has been, in recent years, a notable decentralization and spreading of these industries throughout the whole southern section of the Province stimulated by lower labour taxation, and property costs in the smaller centres, and facilitated by the provision of electric power and highway networks.

on this highly specialized and vulnerable type of economy (which produces roughly one-quarter of Quebec's industrial output), but important groups of the supply, machinery, and construction industries, and of investors and financial institutions in Montreal and Ontario, are equally so. The process of applying mature techniques to Canadian virgin resources in this area requires a huge investment (i.e., huge in relation to the annual output) and in the short run, regardless of the efficiency of the techniques or the richness of the resources, the profitability of the investment depends on favourable conditions in uncontrollable external markets and on skilful marketing policies. When either of these conditions is absent it is not only the industry itself which suffers directly, but also the ancillary industries and dependent investments groups which make up an important fraction of the Canadian economy.

The third type of economy which we have noted is that of subsistence agriculture, chiefly on the frontier north of the St. Lawrence Valley and in the Lower St. Lawrence regions. The St. Lawrence Valley itself, which although only 5 per cent of the area of Quebec contains one-third of the occupied farm acreage and produces nearly one-half of the total agricultural production, is an integral part of the Montreal metropolitan economy. It is in this region that the most intensified and diversified agricultural output, the most progressive methods, the best markets, and the highest standards are found. The Abitibi and Lake St. John areas are largely complementary to the nearby mining, metallurgical, and pulp and paper export industries. The Eastern Townships are in a different category, and have declined as a general agricultural area under the pressure of competition from newer and richer regions, but have made efforts to adjust themselves to the production of some specialized products—live stock, dairy products, and maple products—in which they have some advantage or are at less disadvantage. The remaining agricultural areas are of the subsistence type, in which the production of hay, oats, potatoes and live stock for farm or local consumption is usually combined with woodcutting or fishing to yield a small cash income. The limited and frequently inferior quality of the resources, and the production and marketing disabilities of small-scale and irregular operations result in very low income levels, and make it difficult for these areas to maintain their existing population, and much more so to absorb the natural increase when any alternative employment is accessible elsewhere.

Both because of the distress in these areas themselves and because of the pressure of emigration from them on the cities, much attention has recently been given their economic problems. The physical limitations of resources are admitted, but a more efficient integration of farming, forestry, fishing and certain rural handicraft industries might be worked out to advantage. By the extension of research and experimental work, field demonstration and education, provision in certain cases of improved credit and marketing facilities, and by assistance in improving and standardizing qualities of marketable products, some increase in the net income and standard of living in these areas should be possible. Improvement of conditions in the chief complementary industry would be particularly beneficial, for the greatest hope of any permanent progress lies in working out a satisfactory equilibrium between forestry and agricultural activities—"il faut chercher à marier l'économie forestière à l'économie rurale." But the results of very large and costly programs of colonization, rural resettlement and agricultural assistance in recent years would not suggest that this sector of the Quebec economy will ever attain a high level of prosperity or realize the hopes of those who look to it to replace the present dependence on nation-wide and international trade.

This observation is not intended as a criticism of the efforts which have been made to develop and assist agriculture since any alleviation of conditions in these subsistence areas resulting from improved methods and organization is of great benefit to the whole economy. It should also be recognized that there are other than strictly economic criteria. A self-sufficient rural economy may be preferred for various social reasons to a greater income-producing, more industrialized and urbanized economy integrated with the rest of the country and the world, and thus subject to external and uncontrollable blows and pressures. But from the economic point of view it is necessary to note the physical limitations to large-scale development of a self-sufficient rural economy which do in fact exist, and the impossibility, under any conceivable conditions, of its providing a satisfactory substitute for the nationally and internationally integrated economy which now supports four-fifths of the population.

Enough has been said to indicate the major disabilities and vulnerabilities of the Quebec economies, and the complex nature of the problem which governments must face in attempting to formulate economic and public finance policies. To a greater extent than in other provinces

economic criteria are on occasion subordinated to other social objectives, such as the maintenance of cultural values. As long as national policies worked to the advantage of the metropolitan area, as long as rapidly expanding markets were available for the new electro-product industries of the north, and as long as these two expanding sectors of the economy could help support the agricultural areas and absorb their excess population, there was a natural tendency for the provincial government to follow the let-well-enough-alone school of social and economic policies. Substantial portions of the cost of education and public welfare were left to the Church and the local authorities; the provincial government engaged in none of the public utility and other economic activities common in the other provinces; and a relatively larger share than in other provinces of the responsibility for highways was left to municipal governments. As one result provincial taxation, expenditure and debt were very much less (per capita, or in relation to provincial income) than in the other Canadian provinces although municipal and quasi-public institutional responsibilities were above the average. Another result was a tendency to ignore the potential social and economic problems which were an inevitable consequence of this type of development.

But when the combination of world depression and western drought of the thirties shattered the closely-integrated, national-trading structure, reduced markets and prices for electro-products, and undermined the elaborate financial structure of the economy north of the St. Lawrence, the Province was faced with a critical economic and social situation on all fronts. Governmental intervention on an unprecedented scale became imperative. In the metropolitan area it took the form of direct relief, public works projects, and assistance to back-to-the-land movements (in addition, of course, to the increased Dominion tariffs, which helped to maintain employment in some of the secondary industries). In the electro-product economy north of the St. Lawrence it included tentative efforts at enforcing cartel marketing organizations, exemption from certain public domain taxation, local highway and rural settlement programs, and direct relief. In the subsistence agricultural areas it consisted of increased research and technical instruction, cheap farm loans, increased premiums and bonuses to encourage improved production and marketing practices, and extensive direct assistance in the colonization areas. The aggregate cost of these efforts proved staggering, yet they did little more than tide the situation over, and made only a limited impression on the basic problems. Recovery in the United States and other external markets relieved the pressure on the export industries integrated with them, but the metropolitan area remained depressed. Unless the former trends of expansion of the transcontinental economy are resumed, or an internal stimulus comparable to the Northern Ontario gold mines is found, the most important sector of the Quebec economy will continue in the doldrums. This not only affects the other portions of the Quebec economy, but has far-reaching implications on the provincial public finance structure, on the responsibilities which the Province must be prepared to assume, and on the taxation system, which must support them.

Ontario

Ontario makes up such a large part of the whole Canadian economy that discussion of Ontario's salient economic characteristics frequently becomes a repetition of a description of the national economy. Ontario is not only the biggest but so outstandingly the wealthiest unit of the economy that its special advantages require some examination Ontario has 33 per cent of the population of Canada, but (1937) 42 per cent of the national income, and from 45 to 60 per cent of the telephones, automobiles, residential electric power consumption, federal income tax payments, investment income received, government bonds purchased, and other evidences of higher than average surplus income and standards of living.

Ontario's advantages arise in part from her rich and diversified resources, in part from her strategic position in the national economy, and in part from her situation in relation to the industrial empire of the Great Lakes and Middle West to the south.

A lengthy catalogue could be compiled of Ontario's resources: the timber and pulpwood of the Ottawa Valley and Northern Ontario; the rich agricultural lands of Southern Ontario and the Ottawa Valley; the gold deposits of Kirkland Lake, Porcupine and northwestern Ontario and the nickel-copper deposits of the Sudbury area; the hydro power and the great avenues of transportation provided by her waterways; but note should also be taken of her lack of coal, iron, and oil. Within Ontario itself a very high degree of integration in the exploitation of her resources has been developed. The forestry, mining, and agricultural industries are all to some extent interdependent, and very closely related to the secondary manufacturing, service, and financial industries.

Although the latter industries depend on nation-wide operations, the importance of their local market (and, in turn, their importance as markets to local agriculture) is great, and forms the basis of the greater development.

The character of the soil and the climate give Ontario agriculture the greatest diversification and the best balance in Canada. The ideal combination is possible of mixed farming which affords a basic subsistence and production of specialized staples for sale in either local urban or export markets to yield a cash income. The Ontario farmer has not, on the average, as high a cash income[1] as the Western farmer, but he has a very much greater degree of self-sufficiency, and his cash income is derived from a much more varied range of products—cattle and hogs, poultry and eggs, dairy products, tobacco, fruits and vegetables. On the other hand, his own subsistence production is more varied, and his cash income much higher than that of the average farmer in Quebec and the Maritimes. The primary agricultural industry thus contributes both an important stabilizing factor to the economy, and sufficient surplus production of marketable staples to serve as a basis for a profitable urban-rural exchange and division of labour.

[1]

Table 76.—Income per Farm

—	1928	1933	1937
Prince Edward Island—			
Gross cash income	769	312	476
Net cash income	453	80	205
Income in kind—produce	264	141	186
Nova Scotia—			
Gross cash income	419	328	433
Net cash income	141	126	193
Income in kind—produce	296	183	241
New Brunswick—			
Gross cash income	411	220	350
Net cash income	132	20	108
Income in kind—produce	309	190	248
Quebec—			
Gross cash income	799	357	628
Net cash income	425	89	313
Income in kind—produce	379	219	293
Ontario—			
Gross cash income	1,400	673	1,115
Net cash income	838	265	643
Income in kind—produce	320	179	234
Manitoba—			
Gross cash income	1,515	594	1,434
Net cash income	828	186	939
Income in kind—produce	225	133	185
Saskatchewan—			
Gross cash income	2,341	538	627
Net cash income	1,614	66	141
Income in kind—produce	188	100	124
Alberta—			
Gross cash income	2,164	682	1,203
Net cash income	1,506	201	689
Income in kind—produce	178	109	164
British Columbia—			
Gross cash income	1,093	614	905
Net cash income	460	184	353
Income in kind—produce	284	207	245

Although these statements are generally true, it should not be overlooked that there are some agricultural areas, such as Huron and Bruce counties, which have been unable to meet Western competition in the production of their former staple or to find satisfactory alternatives. Some agricultural areas which depended on local mining markets or local lumbering activities as, for example, some in Eastern Ontario and the Ottawa Valley, or those about Cobalt and Gowganda, have been left stranded as the local resources were drained off. In other regions, such as the Rideau Lakes area, the Muskoka Lakes area, and the northern frontier, only small-scale, subsistence farming, combined with a little woodcutting, fishing and trapping, is possible, and in these, living standards are consequently very low and cash income, except where the tourist industry flourishes, virtually non-existent. On the other hand, in some areas such as the Niagara peninsula, specialization of production has been carried to a very high point, and in such cases fixed costs are high and net incomes consequently vulnerable and highly variable. But in spite of these exceptions Ontario agriculture as a whole, and particularly in the Western Ontario peninsula, is a well-rounded and basically stable industry which contributes importantly to the wealth of the Province and to maintaining Ontario in a leading position.

Ontario's lumbering industry was long the chief stimulus of the Ontario economy, and although the cream of the resources has been skimmed off and mining now takes precedence, pulp and paper production still plays an important role. Although the pulp and paper industry with efficient forest management and conservation methods could be a permanent and stable one, it still appears to be more profitable to the individual entrepreneur to gut the resources of one locality and move on. Whether this would be true if the industry were charged with the social costs of rehabilitating or salvaging the dependent labour and industries in the derelict areas, which are a necessary accompaniment of this practice, cannot be determined. But the development of conservation policies and

the achievement of greater stability within the industry would appear to be necessary if these resources are to be exploited to the best advantage and are to contribute to the support of the whole economy as they have in the past.

The last decade has seen a very large increase in Ontario metal production, due chiefly to the increase in the price of gold. Nickel and copper production have also expanded notably following the Frood discoveries in the late twenties, and as a result of improvement of processing techniques, increased production facilities, and the armament demand of recent years. But of outstanding importance has been the expansion of the gold-mining industry, both through extension of operations at the established camps of Porcupine and Kirkland Lake which still account for four-fifths of the total provincial output, and through the development of new producers in northwestern Ontario. The tripling in value of gold production during the decade affected not only the mining industry itself, the labour employed by it and the capital invested in it, but also a wide range of ancillary industries—transportation, power, lumber, machinery, chemicals and explosives, and the financial promotion and security-trading activities which have done so much to add colour and romance to Canadian mining development. Because this development occurred during a period of general depression it was of particular value and importance, and because it was closely integrated with Ontario industrial and financial centres and agricultural and forestry industries rather than with industries outside the Province, it cut across the traditional east-west lines of the economy and perhaps tended to weaken Ontario's interest in the economic welfare of the rest of the country.

So far we have only discussed those industries which make Ontario on the strength of its own resources a large and wealthy section of the economy. Provincial policies have played an important part in development, the most notable illustrations being the construction of the Temiskaming and Northern Ontario Railway which opened the mining areas; the Hydro-Electric Power Commission which furnished cheap power to industries, rural areas, and consumers in general; the Farm Loans Board which provided agriculture with relatively cheap credit; and the extensive network of modern highways which Ontario early provided and has maintained in good condition. These policies not only hastened and assisted the development of the Ontario economy, but also did much to shape the character of the development and to integrate provincial industries and areas. The close relationship between frontier and metropolitan areas, and between primary industries and manufacturing and finance industries, creates a degree of interdependence which has its liabilities, but also makes for a diversified and well-balanced economy with inherent reserves.

But of at least equal importance with Ontario's natural resources are the strategic position Ontario occupies in the whole Canadian economy and the advantages which Ontario derives from national policies. Ontario's geographical position in relation to the rest of Canada, its resources, and its geographical position in relation to the coal and steel centres and the great industrial triangle of the central United States, made it the logical centre of Canadian manufacturing, and of the distributing, service, and finance industries which are dependent on industrial activity and urbanization. To the extent to which national policies stimulated this development, Ontario was the chief beneficiary. National policies stimulated the development in two major ways: aggressive policies of western development built up a market, and tariff policies directed the demands of this market to Ontario (and the Montreal area). Naturally the chief drive for this relatively advantageous combination of policies came from Ontario and Montreal. A special survey of 1,973 firms in 23 manufacturing industries in Ontario and Quebec, undertaken by the Dominion Bureau of Statistics for the Commission, revealed that between 25 and 30 per cent of their total domestic sales were made in the other provinces. Of course some of these sales would have been made without tariff protection, but on the other hand some of the sales in Ontario and Quebec would not have been made without tariff protection. Perhaps more direct evidence of the influence of the tariff in directing demand to domestic manufacturing industries (overwhelmingly concentrated in Ontario and the Montreal metropolitan area) is given by the 1930-32 tariff increases, which reduced the ratio of imports to the total value of production from 25 per cent in 1928 to 13 per cent in 1933.[1] This diversion of purchasing to the protected industries not only increases aggregate employment and income directly in the areas where they are located, but stimulates the development of satellite financial and service industries about industrial and metropolitan centres. A natural result of this concentration of industry and

[1] See Appendix 3—W. A. Mackintosh, *Economic Background of Dominion-Provincial Relations*, pp. 89-96 for details and for qualifications necessary in use of these ratios.

finance is a trend toward highly developed corporate, and frequently monopolistic, organization which in turn further stimulates the concentration of entrepreneurial and managerial incomes.

It has been noted that, in addition to the national policies which assisted in developing a market for manufactured goods in Western Canada and then directed the demands of that market to Canadian sources, proximity to the industrial heart of the United States has been an important Ontario asset. It has made available cheaply[1] the basic industrial raw materials of coal and iron in which Ontario is deficient; it has facilitated the introduction of new techniques and mass-production economies, and the rapid development of modern industries by making specially skilled labour and machinery readily available; it has encouraged the development of United States branch plants manufacturing for export to Empire or other countries where Canada may have preferential trading advantages; it provides an important tourist trade; it is on occasion an outlet for skilled and professional labour which cannot be absorbed in the Canadian market; and the industrial region south of the Border is an important source of capital for Canadian industries. In spite of tariff barriers there is some degree of integration and complementary specialization both in production and in the provision of public works between Ontario and the adjoining states which reduces overhead costs and increases net income.

One consequence of Ontario's dependence on the adjoining states for many of its industrial raw materials is that increased manufacturing activity in Ontario is bound to be reflected in increased imports, and tariff increases on finished goods tend to increase imports of industrial raw materials. In this process, of course, there is a diversion of purchasing from United Kingdom and United States manufacturers to United States industrial raw material producers, but Canadian exports are still necessary in order to provide the necessary exchange. The original dependence on Western wheat exports to provide this exchange has been diminished, as we have noted, by drought and adverse marketing factors in the wheat industry and by the rise of new export industries within Ontario. The importance of developments on the new northern frontier in power, pulp and paper, and gold is thus far greater than that of providing merely a new source of production, and a stimulus to Southern Ontario; it has become the basis for a new pattern of economic organization cutting across the lines of the traditional transcontinental structure; it has tended to lessen the dependence of Ontario on the successful operation of the national system.

Nevertheless, there are weaknesses in the new structure which may have been concealed by its rapid expansion in a time of general depression. One is the exhaustive character of the gold-mining industry which is the mainspring of the whole development. Owing to the complex geology and structure of the chief deposits, estimates even approximately satisfactory of total ore reserves cannot be made as can be done, for example, in South Africa. There are, however, indications that both the Porcupine and Kirkland Lake camps have passed their zeniths. This is particularly important because, in spite of a 70 per cent increase in the gross selling price accompanied by some decrease in operating costs over a period of six years, no major new camp has been discovered. Some 80 per cent of the output still comes from Porcupine and Kirkland Lake, which have turned to the exploitation of former sub-marginal, low-grade ores to expand their production and prolong their lives. From the point of view both of owners and of society a large proportion of the returns from an industry of this nature should be treated as capital amortization, and the construction and capital equipment activities which it engenders must be recognized as non-recurring. Not only will the inevitable depletion of these resources reduce incomes directly and indirectly derived from them, but it will also create problems of social adjustment which will require extensive governmental intervention and assistance.

The wealth of the Ontario economy thus rests in part on a well-balanced and closely integrated development of its own natural resources, including its geographical position in relation to the rest of Canada and the United States. It has also depended in the past on the successful operation of the traditional national policies, which have combined with Ontario's natural advantages to divert a relatively large proportion of Canadian surplus incomes to advantageously located centres in Ontario. And in recent years it has been maintained by an intensive but ephemeral development of Ontario's own northern frontier. Whether or not it can be maintained in the future will obviously depend in part on the general prosperity of the Canadian economy, of which Ontario is such an important and integral part, and in part on Ontario's opportunities and ability to integrate herself with the Canadian economy in such a

[1] In a prosperous year the states bordering on the Great Lakes produce 40 per cent of the world's steel.

fashion as to make the most of her natural advantages, and to protect herself against the potential disabilities inherent in her position.

The Prairies

The Prairie Provinces form the region most directly affected by major national policies. The major objectives of these policies in the past—to develop the virgin resources of the Prairies, and to provide for internal markets for other regions—were directly concerned with Western expansion, while they affected the rest of the country chiefly in accordance with the degree to which the other regions were integrated with and dependent on the Prairie development. We have also noted how other than purely economic motives determined national policies, and added to their cost—an addition which could be easily borne as long as the virgin soil of the Prairies and favourable world marketing conditions combined to produce an exceptionally high net income.

The rise of the wheat industry, on which the whole Western economy and an important part of the rest of Canada were dependent, was a classic example of the income and prosperity which an area with very limited resources could yield through international specialization of labour. Much of the population of Great Britain and the Continent could be better and more cheaply fed on Canadian wheat, and the population of Western Canada could be better and more cheaply clothed with European textiles than either region could provide from its own resources. But with the decline, and in some cases complete breakdown, of the international trading system which made such specialization possible, the Prairies threatened to become an equally classic example of an area doomed to chronic depression. The coincidence of widespread and recurring drought was the final blow, for it prevented resort to the traditional defence of the individual producer—expansion of production which, as long as actual operating costs were covered, would enable him even at very low price levels to spread overhead costs and compete aggressively in world markets. In addition the drought made necessary widespread subsistence relief for families and stock and provision of seed and other supplies which would normally have been locally produced. It has been attempted in other parts of this Report to give some description of the situation resulting from the combined effect of drought and the collapse of wheat prices. It is sufficient to note here that total income in the area fell almost by half, and income from agriculture by almost four-fifths, from the 1926-1929 average to the 1930-37 average. These bare statistics, however, cannot convey the full measure of the Western débâcle with its shattering blows to living standards, to adequate nutrition, to health services, to educational standards, to community equipment such as highways, and to individual hopes and dreams and ambitions.

Although abnormal drought conditions are passing, the reduced world wheat market makes necessary a reappraisal of the whole Western situation and of the role of the West in the Canadian economy. The reduction in demand from Germany, Italy, and France alone, as a result of their policies of self-sufficiency, is roughly equal to the total surplus production of Saskatchewan; the effort to stimulate potato and root crop production in the United Kingdom, which is the one important remaining market, is directly aimed at reducing wheat imports; and the former dreams of expanding Oriental markets have been disturbed by the Japanese occupation of North China and its aftermath and by Canadian reluctance to accept Oriental goods in payment for exports.

In what is left of the international wheat market —say 500 million bushels a year as compared with the 750 million of the twenties—Canada's position is as strong as, or stronger than, it has ever been. Wheat producers in Australia, Argentina, and the United States have alternatives of production lacking in Canada, and Canadian producers have made notable advances in reducing their costs and improving their techniques. In the normal economic process Canada should gain a larger share of the reduced market. But this assumes a relatively lower level of wheat prices (excepting fluctuations due to crop variations) which will force marginal producers with alternative sources of employment out of wheat production. The implications of this for the Canadian West are that the better lands will produce a smaller net income than formerly, that much of the land occupied at present will prove submarginal, and that the possibilities of expansion are greatly reduced. In addition, we must take account of one of the factors which has been primarily responsible for reducing Canadian costs, and for enabling the West to compete with other wheat-producing areas —the mechanization of Canadian wheat farming, which greatly reduces the ratio of labour to acreage and production. But this development has left certain areas of the West with populations which, in relation to their resources, are excessive.

On the whole the wheat economy has reached maturity. It is a premature maturity owing to the general trend of international affairs, but from any

realistic point of view it must be recognized as a given condition for the present. The implications of this dénouement to the national economy are many. The overhead created on the assumption that the West would support a very large population, and the national policies which were based on the assumption that the West would provide a continually expanding market, are both threatened by the destruction of their original justification—the expectation of almost unlimited expansion of the world wheat market.

But the disabilities of the area must not be overemphasized. Given a return of normal climatic conditions, the natural advantages of the industry are great, and there is some ground for hope that the United States will eventually provide a new and expanding market. But an economy accustomed to a rapid rate of expansion has suddenly to adjust itself to a long-term flattening out, or possibly even a measure of decline, in the basic trends.

Alternative outlets for employment and production are not hopeful.[1] Subsistence agriculture is possible in areas in northern Alberta and Saskatchewan, and eastern Manitoba, but the position of people dependent on subsistence agriculture in Western Canada is not encouraging. The volume and variety of local production in the West are limited by climatic and physical factors, and produce a relatively low standard of living. The lack of any marketable staple virtually eliminates cash income, and makes it impossible for these areas to secure any of the advantages of division of labour and specialization of production. From a social point of view they become rural slums, and centres of illiteracy and undesirable health conditions. From a public finance point of view they are potentially serious public liabilities in emergencies, and virtual ciphers at any time as contributors to public revenues. From the point of view of the economy as a whole, they contribute virtually nothing to the general overhead, while they exert a constant pressure on living standards in adjoining areas because of the enforced emigration of unskilled labour from them. So much has been said of the merits of self-subsistence agriculture and of developing a "peasant economy" on the northwestern frontier that it is necessary to refer to it. The most that can be said of it is that it can keep a certain number of people alive in deplorable living conditions. There are important exceptions to this sweeping generalization. Where there is opportunity for the development of some export staple, such as hogs or alfalfa seed, which will produce some cash income, living standards may undoubtedly be improved and the community may make some contribution to the economic welfare of the region as a whole. But the possibilities of developing such specialties appear to be distinctly limited.

Mining development is also looked on as a possible alternative but it has so far been limited. It includes the exploitation of one large and a couple of minor complex base-metal ore-bodies in northern Manitoba, the development of the Turner Valley oil field, and the discovery of a few small pockets of precious metals in the Prairie sector of the Pre-Cambrian Shield. In addition persistent efforts have been made to develop the large but low-grade coal resources of southwestern Alberta and southeastern Saskatchewan, but the difficulty is the lack of a local market of any great importance. These developments should not be disparaged, and they have all contributed to maintenance of regional incomes and employment to an important extent during the depression, but it must be recognized that the greatest contribution of this type of activity is during the developmental stage, and that it offers no permanent solution for the economic difficulties of the Prairie region, as far as can be judged from our present knowledge of western and northwestern mineral resources.

Governmental expenditures are proportionately larger in an economy of the Prairie type than in a more self-sufficient one, but as cash incomes are also proportionately larger, governments with appropriately designed taxation systems have an opportunity to recoup. In time of depression governmental expenditures are larger because of the extensive need for aid when the staple export, and the primary source of income for the whole economy, collapses. In times of prosperity governmental expenditures are larger because of the economy and acceleration of development which result from financing public works and community equipment through governmental agencies. As a result Prairie governments have undertaken many economic activities—the provision of railways, electric power, telephones, farm loans, grain elevators, irrigation works—in addition to the normal provincial functions of roadbuilding and education. Even in these normal spheres governmental activity bulked larger than in the East. In a trading economy a highway and railway network is of first importance and, owing to the speed of Western settlement, transportation facilities had to be provided in a very short space of time. Educational costs have been increased by the similar need for

[1] For extended discussion see Appendix by W. J. Waines, *Prairie Population Possibilities* (Mimeographed).

providing equipment speedily and the virtual absence of privately-endowed educational institutions.

It is obviously essential to all interests concerned to preserve the governmental structure and credit of Western Canada in view of the vital importance of community organization in such a vulnerable and specialized society. Whether the economic base of the governmental structure is wide and stable enough to finance the cyclical fluctuations of the chief industry of the region may be doubted in view of the extreme character of both the natural and commercial swings of fortune. In addition to the erratic course of regional income is another factor of great importance to Prairie public finance: the ability of the small, independently organized units of the individualistic, Prairie economy to bargain on equal terms with the monopolistic corporate organizations of Eastern Canada—to which the commercial relations of the area are largely restricted by national policies. The failure to secure advantageous terms of trade in the past has resulted in draining off the surplus income of the Prairies to the East and in efforts of the Prairie residents to use the economic powers of their provincial governments to redress the balance.

British Columbia

It is characteristic of the Canadian economy as a whole that rich concentrations of natural resources are separated by large barren areas, and in British Columbia this particular contrast is even more pronounced. Some of the mineral and forest resources are advantageously located on the coast, or in the relatively accessible Fraser River Valley, but many lie in the interior and can only be exploited after the provision of tremendously costly transportation facilities. Much of the Province is waste land, and even when some resources exist in pockets in these areas they are too distant or too difficult of access for profitable development. On the other hand, some of the Province's resources—the huge base-metal ore body of the Sullivan and many smaller deposits of gold, copper and coal, the stands of Douglas fir on the coast ranges, the rich agricultural lands of the Okanagan and lower Fraser Valley, the water powers of its rivers, the fine harbours of its coast, and the magnificent scenery of its mountains—are outstanding. The exploitation of these resources has on occasion yielded very large profits and has made possible the establishment of a high standard of living, including a high level of governmental services. But while the cost structure inherent in the geographical character of British Columbia and the standards which have been adopted is high and rigid, the income to support it is extremely fluctuating. Added to the customary uncertainties and hazards of an economy partly dependent on mining, are the risks of dependence on foreign markets for a few primary staples which are subject to wide fluctuations in both demand and price, and access to which is dependent on favourable shipping rates.

External transportation is as vital to British Columbia as internal transportation. The opening of the Panama Canal and the chronic depression in shipping rates which followed the post-War boom brought British Columbia very much closer to the markets of the world. This not only produced higher net incomes for British Columbia producers, but greatly expanded the commercial possibilities of the resources of the Province, and extended the area which found it profitable to trade through Vancouver. For example, every cent reduction in ocean rates on wheat from Vancouver to Liverpool in comparison with the rate from Atlantic ports to Liverpool moved the border of Vancouver's tributary area further east, and finally all of Alberta and nearly half of Saskatchewan was captured. The movement of bulk exports from this area through the port, and even the return flow and distribution of import requirements, contribute relatively little to the economy once the flow is established, but the activity during any period of expansion is of great importance.

In the last two decades British Columbia has enjoyed a fortuitous coincidence of several factors of major importance. The great reduction in shipping costs which in particular stimulated the export of wheat by the Pacific and the development and export of lumber and later of newsprint, the improvement in electro-metallurgical technique which made possible the exploitation of the complex Sullivan ores on a huge and profitable scale, the expansion and rising demand in Prairie markets (until the drought) and particularly in the areas tributary to Vancouver, the rise of the tourist and resort trade, and the development of new Oriental outlets, each in turn engendered a huge capital program and all together stimulated an almost uniquely high rate of expansion which to some extent fed on itself. Vancouver rapidly emerged as an important metropolitan market, encouraging the development of secondary and service industries.

The depression revealed the vulnerability of the whole structure as United States lumber markets were closed, as base-metal demand and prices collapsed, and as new construction activity

dwindled. However, every primary exporting economy experienced much the same difficulties, and in the case of British Columbia there was some alleviation from the abnormally low ocean freight rates which improved its competitive marketing position and extended its tributary area, and from Imperial Preferential Agreements of 1932 and the Trade Agreement of 1935 with the United States. In addition, although the fixed costs of British Columbia industry were of necessity high, the operating costs of such important industries as base-metal mining, smelting and refining, and newsprint production, proved very low. As long as British Columbia enjoys below-cost ocean freight rates and retains important virgin resources to which the most modern and efficient techniques of production can be applied, it possesses a cushion in the most severe depression.

Nevertheless the acute depression of the thirties seriously threatened the financial solvency of the Government and, indeed, of the whole economy. It was a significant illustration of how precarious are an income and standard of living based on a few specialized resources and external markets, however profitable the combination may be in favourable periods. In addition, since some of British Columbia's most important resources are exhaustible and diminishing, since to some degree at least the high returns of the past have been achieved by treating capital depletion as current income, and since part of its expansion has been due to non-recurring capital development stimulated by the Panama Canal, it is evident that there are important problems and uncertainties in the future.

The special character of British Columbia's economy has influenced its public finances in many ways. The difficulties of transportation led the Government into the costly Pacific Great Eastern project which, if accrued interest due to the Province is included, accounts for half the present provincial debt. Geographical factors have also been responsible in part for the relatively small amount of municipally organized territory, and have probably inflated the cost of some governmental services. Even British Columbia's physical assets have their public finance implications; for example, the favourable climate attracts elderly retired people of means and thus augments the Province's succession duty revenues, but it also attracts unemployed transients and augments the Province's relief expenditures. Although the Government has incurred large developmental expenditures in order to make the Province's natural resources available, it has reaped a large revenue from its public domain and corporate taxation. The resources are of a nature best exploited by corporations rather than individuals, and this has led to a concentration of taxable income and the adoption of appropriate taxation policies considerably and significantly different from those in other provinces. The high net incomes enjoyed during the skimming of the cream of the resources established high standards of living and services in general. In the depression there was approximately as great retrenchment as elsewhere in Canada, but this still left the majority of British Columbia services substantially above the rest of Canada in costs, and they could only be reduced to the Canadian average under the most extreme pressure. It is not suggested in any way that this would be desirable, but it is important to note it as one of the high, and in practice, uncontrollable costs of the economy. There are also other types of expenditure, of which the chief examples are conservation and research, which are temporarily avoidable and consequently usually suffer the major reduction in times of depression, but which are of basic importance to the future in an economy built to such a large degree on wasting assets.

4. Conclusion

We have noted some of the salient features of the Canadian economy and of the regional economies which have developed within the main structure. The Canadian economy is one which under any circumstances would have certain disabilities and weaknesses—the necessary dependence on a few specialized exports and the consequent vulnerability and sharp fluctuation in income, the large proportion of unproductive area and the seasonal handicaps which increase overhead costs, and the consequent rigidities of the cost structure as a whole. But in addition to those disabilities, which are inherent in the nature and distribution of Canadian resources, are the increased costs which have been incurred for political and national reasons and which further increase the rigidity and vulnerability of the economy.

From our survey of the economies of the various geographical regions it is also apparent that there are wide disparities in per capita regional incomes. This condition, as the historical survey in previous chapters indicates, has been more or less constant, but in times of depression it is likely to be greatly intensified at least as between certain regions. This condition raises grave problems of provincial and municipal finances; it militates against equality of

capacity as between provincial governments to withstand economic crises, and against equality of standards in provincial services, especially under the present division of revenues and responsibilities between the Federal and provincial governments. But the implications of this condition on public finance will be discussed at length in the following chapter.

There are clearly some elements making for national integration and interdependence, and some for division of interest and friction. With the passing of the period of expansion which was so greatly influenced by the traditional national policies, it may be necessary both for the preservation of national unity and the preservation of the national welfare that new policies should be inaugurated and developed to stimulate and give dynamic direction to new national expansion, although probably on very different lines and different frontiers. Several alternative policies are possible. In the vital field of external economic relations Canada might strive for closer integration with the United States, or with British countries, or for greater self-sufficiency. In internal management Canada might move toward a freer economy, with greater reliance on the unrestricted operation of the capitalist system and less responsibility for its casualties, or it might move toward a more controlled economy. A controlled economy might increase or reduce the national income, depending on the wisdom of its policies and the skill with which they were carried out, and it might increase or decrease the existing unevenness in the distribution of the national income, depending on the prevailing philosophy as to the functions of government in this respect. The most appropriate policy at any time will depend on a variety of circumstances. One of the most important fields of national activity, and the one most immediately relevant to this Report, is that of public finance. It is impossible to forecast developments, but with the knowledge we now have of the vulnerability and weaknesses of the economy we know that our economic and fiscal policies must be adapted to meet current conditions and to prepare for possible emergencies. The Commission's task is not to say what policy should be followed, but, within the scope of its terms of reference, to recommend adjustments in the federal financial system which will make it possible to follow some policy. Canada's present and prospective economic condition makes it clear that we can neither continue to afford the friction and waste of conflicting policies, nor the greater loss due to paralysis of policy arising from a possibly obsolete division of governmental responsibilities and powers.

Chapter VIII

CANADIAN PUBLIC FINANCE TODAY

1. Government Expenditures

Government expenditures in Canada have been equal to about 30 per cent of the national income in recent years. However, such a ratio is not valid as a measure of the "burden of taxation", or the "burden of government", for it may be highly misleading, particularly in comparison with that of other countries, and it must be qualified by analysis.

The various categories of government expenditure are of different significance: some expenditures are for the basic regulatory and protective functions of government; some are for collective services which the community believes it is advantageous to supply its citizens on a co-operative basis rather than to leave to private enterprise; and others are transfers from one group to another either on account of past obligations or to achieve some redistribution of the national income for social purposes. Any discussion of the relation of government expenditures to the national income must distinguish between these different categories. Expenditures on the first group of functions are necessary if the economic system, as we know it, is to operate at all. Expenditures on the second group purchase services which constitute part of the national income. Some of these services might have been purchased directly by the taxpayers had the Government not provided them. Or different services might have been purchased. It is not clear whether the intervention of government in these cases increases the national income, or decreases it, or merely changes its form. Expenditures in the third group are merely transfers which do not directly add anything to the income of the community as a whole, although they have long-run indirect effects which may be either stimulating or depressing.

Expenditures which may be considered as directly productive in relation to the national income include the cost of protection to persons and property, education, expenditures on development and transportation, and a portion of the costs of general administration and tax collection. These all represent the employment by government of labour, capital, and resources to supply services for the community. Expenditures of a transfer nature include direct relief, pensions, and other public welfare payments, and interest charges on non-productive debt. Here no productive resources are employed and there is no direct contribution to the income of the country as a whole.

In 1937 out of a total government expenditure on current account of $996 million, approximately $406 million consisted of transfer disbursements. That is, between 10 per cent and 11 per cent of the national income was diverted into government channels and redistributed to the unemployed, war pensioners, old age pensioners, children, indigent sick, and on account of debt service on unproductive assets. (Of course, in a country of equal but more evenly distributed wealth, these transfer expenditures would be proportionately less needed.) The remainder of the government expenditures, $590 million, are a measure of the value of the collective services provided the community by government and constituted about 15 per cent of the national income.

Table 77.—Expenditures of All Governments, 1937

(Millions of Dollars)

Collective Services:—		
(Including their share of debt charges).		
Primary functions of government (Administration, legislation, justice, and defence)	212	
Education	123	
Development and Transportation	255	
		590
Transfers—		
Relief	127	
War pensions	54	
Other public welfare	125	
Interest on unproductive debts	100	
		406
		996
(The National Income, 1937		3,829)

The foregoing table merely indicates very briefly the relative order of magnitude of government expenditures in Canada. To review the chief characteristics of these expenditures a somewhat more detailed classification is necessary. It is first necessary to distribute the net interest payments (that is, the total amount of interest paid less interest received) of all governments according to the purposes for which the debts were contracted. The total outstanding debt (direct and guaranteed) of all Canadian governments was $7,863 million at the end of 1937. Of this, $1,413 million was represented by assets which were either liquid or self-supporting (or both). The purposes for which the remainder—$6,450 million—was incurred are shown on the following table, classified according to the chief functions of government.

TABLE 78.—DEBTS OF ALL GOVERNMENTS WHICH WERE NOT DIRECTLY SELF-SUPPORTING[a], 1937

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
Outstanding Debt Incurred for—				
1. Primary Functions of Government (Legislative, Administrative, and Judicial Buildings, and War Expenditures)	1,818	80	x	x
Less cumulative current surplus before special charges	−1,233	—	x	x
NET TOTAL	585	80	225	890
2. Education	—	50	180	230
3. Development and Transportation (including Railways, Highways, Harbours and Canals, Power Commissions, Telephones, Agricultural Loans, etc.)	3,250	975	275	4,500
4. Public Welfare (Relief, Public Health, etc.)	420	235	175	830
GRAND TOTAL	4,255	1,340	855	6,450

[a] These are the total debts, direct and guaranteed, of all Canadian governments *less* liquid assets (e.g., cash), investments which were completely self-supporting (i.e., which paid full contractual interest), and the capitalized value of interest earned by partially self-supporting assets.

The interest charges on this debt (ignoring for the moment any provision for amortization) were $271 million, or about 27 per cent of all government expenditures. Approximately $100 million of this interest bill was the cost of servicing unproductive debts, i.e., accumulated deficits, War expenditures, capitalized relief and capitalized losses. The balance, $171 million, was paid on debts incurred for public buildings, highways, railways, canals, and other developmental facilities which provide services for the community but which are not directly paid for by the individual users. In the following table of expenditures of all governments the net interest payments are distributed according to the chief functions.

TABLE 79.—EXPENDITURES OF ALL GOVERNMENTS, 1937

(On Current Account, before provision for debt retirement)

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
1. *Primary Functions*—				
Legislation, administration, and justice	52	33	x	x
National defence, military pensions and aftercare	88	—	x	x
Miscellaneous, less refunds and sale of miscellaneous services	—	9	x	x
Sub-total	140	42	65	247
Debt charges	23	3	14	40
Total	163	45	79	287
2. *Education*—				
Current Expenditures	—	32	77	109
Debt charges	—	2	12	14
Total	—	34	89	123
3. *Development and Transportation*—				
Agriculture and public domain	20	21	—	41
Transportation	20	25	31	76
Sub-total	40	46	31	117
Debt charges	128	37	18	183
Total	168	83	49	300
4. *Public Welfare*—				
Relief	66	43	18	127
Other Public Welfare	44	45	36	125
Sub-total	110	88	54	252
Debt charges	16	9	11	34 [a]
Total	126	97	65	288 [a]
5. *Subsidies to provinces*	21	—	—	—
GRAND TOTAL	478	259	282	996 [a]

[a] After elimination of double counting.

Primary Functions

The expenditures labelled "Primary Functions" are the cost of the traditional forms of government activity, namely, protection to persons and property, national defence, and general administration. In the past these were virtually the only functions of government, but with the growing complexity of society, the increase in the scope for and the efficiency of collective effort, and the changed conception of the role of government in the amelioration of social distress, they have declined in relative importance. In 1937, including the heavy burden of the last War's expenditures (against which, for the purposes of this analysis, all current surpluses have been credited), they accounted for 28 per cent of total public expenditures in Canada.

The administration of justice, legislation and general government requires little comment. These functions may tend to cost somewhat more in a federal than in a unitary state, partly as a result of a certain amount of governmental overlapping and duplication, and partly as a result of the perpetuation of historical divisions and boundaries which have been made obsolete by the development of improved communications and transportation. It is easy to exaggerate the importance of these factors, however, and the detailed investigation made by the Commission of possible duplication of Dominion and provincial services,[1] and of possible economies from provincial union in the Maritimes and the Prairies,[2] revealed little avoidable expenditure.

[1] See Book II, Sec. C., Ch. II.
[2] See Book II, Sec. C., Ch. I.

Defence.—The place and relative importance of national defence in public expenditures, on the other hand, depend on a variety of circumstances. In most European countries national defence has dominated public finance and has absorbed a major portion of governmental resources and efforts. Canada has enjoyed certain fortuitous geographic and political advantages which have profoundly influenced its national defence expenditures and, consequently, the balance available for other purposes. Before the Great War the cost of national defence was negligible, and it was this which permitted the extensive governmental aid to development and transportation which was such a striking and proportionately unique characteristic of Canadian public finance. Even after the War, including its legacy of debt charges and pensions, Canadian defence costs were still relatively low, although they had risen sufficiently to be a factor in curbing the Dominion's developmental program. However, the quadrupling of current expenditures on national defence from 1935 to 1939 has altered the picture somewhat and has materially reduced the comparative advantage in this field which Canada formerly possessed, and on which many of her other public finance policies were based.[3]

Education.—Expenditures on education increased from before the War, indeed from the beginning of the century, in almost exactly the same ratio as all government expenditures until the early thirties. Education then bore the brunt of depression retrenchment and total budgets were cut by a sixth. There has been some expansion since 1936, but the total expenditure is still (1939 estimates) some $10 million below the 1930 peak, and the ratio of education expenditures to all government expenditures has fallen from roughly

[3]TABLE 80.—CANADIAN DEFENCE EXPENDITURES COMPARED WITH THOSE OF OTHER COUNTRIES

For the fiscal years nearest to December 31, 1937

——	United Kingdom[a]	U.S.A.[a]	France[a]	Australia	Argentina	Canada
Per capita defence expenditures (Canadian Dollars)....	27.26[b]	7.89	8.43	3.46	4.52	2.98
Percentage of total government expenditures.....	26·1	13·4[c]	18·4	7·0	14·6	5·8
Percentage of national income.....	5·4	1·4	4·1	0·8	[d]	0·8

[a] Only the published figures on defence expenditures were used in the calculations.
[b] Includes expenditures authorized under Defence Loan Act, 1937.
[c] Expenditures on Trust Account not included.
[d] Argentine National Income not available.

15 per cent during the first thirty years of the century to 11 per cent in 1937, and somewhat less currently.[4] It would not be realistic to assume that this lower level will be maintained, nor from the evidence submitted to the Commission would it appear desirable. Since local governments bear more than three-quarters of the total cost of education, the most severe cuts in expenditure have occurred in the depressed areas. Yet it is in these areas that it is perhaps most necessary to maintain standards of education which will enable the younger generation to compete in all prospective fields of employment and which will thus assist desirable mobility of labour.

(4) TABLE 81.—PROVINCIAL AND MUNICIPAL EXPENDITURE

EDUCATION

—	1930	1933	1937
Prince Edward Island—			
Provincial and municipal expenditure on education ($000)	488	514	549
Per capita $	5.55	5.78	5.90
Percentage of total provincial-municipal expenditure	32·7	31·8	27·7
Percentage of provincial income	2·1	3·8	3·1
Nova Scotia—			
Provincial and municipal expenditure on education ($000)	3,786	3,950	4,216
Per capita $	7.37	7.57	7.78
Percentage of total provincial-municipal expenditure	26·0	22·7	23·0
Percentage of provincial income	2·3	3·7	2·7
New Brunswick—			
Provincial and municipal expenditure on education ($000)	2,823	2,619	2,675
Per capita $	6.95	6.24	6.08
Percentage of total provincial-municipal expenditure	23·9	21·8	20·8
Percentage of provincial income	2·a	3·5	2·5
Quebec— (Note discussion in the text of the contribution of the Church and of private fees in Quebec which make direct comparisons with educational expenditures of other governments impossible.)			
Provincial and municipal expenditure on education ($000)	20,201	22,566	22,701
Per capita $	7.15	7.60	7.24
Percentage of total provincial-municipal expenditure	19·2	17·2	15·3
Percentage of provincial income	2·0	3·5	2·4
Ontario—			
Provincial and municipal expenditure on education ($000)	47,496	44,481	44,576
Per capita $	14.03	12.48	12.01
Percentage of total provincial-municipal expenditure	27·2	22·2	23·2
Percentage of provincial income	2·8	4·0	2·8
Manitoba—			
Provincial and municipal expenditure on education ($000)	8,823	7,569	6,907
Per capita $	12.81	10.66	9.63
Percentage of total provincial-municipal expenditure	26·1	19·4	19·8
Percentage of provincial income	3·3	4·4	2·7
Saskatchewan—			
Provincial and municipal expenditure on education ($000)	13,362	9,829	8,191
Per capita $	14.80	10.55	8.72
Percentage of total provincial-municipal expenditure	30·8	21·8	17·6
Percentage of provincial income	5·8	7·8	4·2
Alberta—			
Provincial and municipal expenditure on education ($000)	11,715	10,080	9,447
Per capita $	16.55	13.48	12.14
Percentage of total provincial-municipal expenditure	31·4	26·4	27·2
Percentage of provincial income	4·6	6·3	3·9
British Columbia—			
Provincial and municipal expenditure on education ($000)	9,786	8,257	9,365
Per capita $	14.48	11.60	12.47
Percentage of total provincial-municipal expenditure	20·9	17·2	18·4
Percentage of provincial income	2·7	3·5	2·9

Transportation and Development.—The largest item in the expenditures of Canadian governments is that of transportation and development. Including current expenditures and net interest paid on debt incurred for these purposes, they account for nearly one-third of all government expenditures —a proportion that has scarcely varied since Confederation. The relative freedom from the burden of national defence, the geography of the country, and the extensive natural resources which could only be made available by the provision of extensive transportation facilities, have encouraged governmental promotion of economic expansion on a scale which is unique in capitalist countries. From the earliest days of responsible government the main objective of public policy has been the provision of transportation facilities and other public works which would stimulate the economic development of the country. The united Canadas strained their resources to construct canals and trunk railways in an effort to establish a commercial empire on the St. Lawrence. The Fathers of Confederation assigned to the new Federal Government the expensive task of uniting the colonies scattered across the northern half of the continent with railways, improved waterways and harbours. These projects were carried through at public expense or with public assistance to hasten the settlement of the empty spaces, to bring new resources into production, and to improve the inter-relationships between the various regions. More recently hundreds of millions have been spent on the construction of highways. In spite of the great economic expansion that has occurred it has not been possible, or at least it has not been deemed desirable, to charge the full cost of these facilities directly to users, and heavy burdens have been assumed by governments, mostly in the form of debt charges. Two-thirds of the total net debt charges are for interest on money borrowed for transportation and developmental purposes. While large expenditures have speeded up the economic growth and integration of the country, they have

also added to the difficulties of adjustment to fluctuations in so far as they have converted the relatively flexible costs of private industry into the more rigid costs of government indebtedness. In other words, the outlay on transportation and development constitute in large part overhead costs of the Canadian economy assumed by government —costs which would have been less rigid if they had been borne by private industry, in which case citizens would have sustained losses as investors instead of heavier taxes.

The major portion of these costs had to be met, in one form or another, if the Canadian economy was to be developed and a Canadian nation built; but the necessary burden has been increased to a substantial extent by misdirection of investment. In the past this took the form of unnecessary duplication of railway facilities; today it is being increased on an even larger scale in the form of duplication of, and lack of co-ordination between, all the modern agencies of transportation—railways, highways, waterways, and airways. The lack of co-ordination, even more than direct competition, is a cost and waste which Canada cannot afford today, and as discussed in Book II[5] the problem is seriously aggravated by the existing division of jurisdiction and lack of unified financial responsibility. The rise of the automobile as an effective competitor in the most lucrative branches of short-haul revenue traffic has had far-reaching effects on the present position and outlook for railway finances (in which the Dominion Government is heavily involved); on the railway rate structure which evolved under very different operating and competitive conditions (and which subsidized the movement of low-grade, bulk freight at the expense of more valuable freight that is now being diverted to cheaper and more convenient channels); and on regional economies and vested interests of capital and labour which depend on the maintenance of existing transportation rates and differentials. In a country where cheap and efficient transportation is of such basic importance as in Canada, and where governments are already so very heavily involved,[6] the rise of new agencies of transportation and major alterations in competitive conditions have profound effects on public finances. Although a great deal of study has been given in Canada to the railway problem and particularly to the relations between the two big systems, relatively little attention has been given to the much broader problem of co-ordination of all agencies of transportation. The very fact that the existing division of jurisdiction makes it more difficult to deal effectively with the problem imposes greater responsibility on the governments concerned to attempt it.

Social Services.—Having noted the expenditures associated with the traditional functions of government, and the uniquely large Canadian expenditures on transportation and development, we come to the third major group of social service expenditures. These consist of expenditures for general public health, and, in larger and increasing amounts, for maintenance of individuals who cannot, either for physical or economic reasons, maintain themselves. The latter type of expenditure, and to some extent the former, are examples of the transfer type of expenditure which, in the same way as soldiers' pensions and interest on unproductive debt, redistribute the national income but do not directly increase or decrease it. Their rapid growth in recent years has effected a major change in the character of Canadian public finance, and has been responsible for the breakdown of the traditional division of financial responsibilities of the Canadian federal system.

The total expenditures of all governments on public welfare and relief (excluding soldiers' pensions) rose, but not notably more than all other expenditures (from 6 per cent of the total in 1913 to 8 per cent in 1929) until the depression, but then shot up to 25 per cent of the total in 1937. In dollars, expenditures quadrupled between 1929 and 1937.

It is not surprising that the huge increase in recent years has been generally looked on as an abnormal depression phenomenon, and that policies have been based on the wishful thinking that a return to prosperity would reduce the figures to pre-depression levels. As brought out in our previous chapters, however, fundamental changes were occurring and certain major forces operating which made very substantial increases in social service expenditures by governments inevitable even if a high level of general prosperity had been maintained. The increasing number of people in the older age groups (and the temporary, but at the time important, factor that some 60,000 of their potential supporters had been lost in the Great War); the increased specialization of the economy with its corollary of decreased local and family self-sufficiency; the growth of the cities and of the more vulnerable service and luxury trades;

[5] See Book II, Sec. D., Ch. II.

[6] See tables pp. 203 and 204. Outstanding debt of Canadian governments attributable to transportation and development $4,500 million; current annual expenditures, including debt charges, $300 million.

these were all normal features of a maturing economy. When, in addition to what we might call these normal economic changes which were operating to increase social service costs (although governments had not recognized them as normal and natural factors, and had not planned in any comprehensive way to make financial provision for them), Canada bore the full brunt of the world depression and of disastrous drought, government finances were particularly strained. The virtual inevitability, in any circumstances, of rapidly increasing welfare expenditures called for close examination of the governmental distribution of financial responsibility and of the appropriateness of the existing division of jurisdiction for administrative purposes, but when the depression expenditures were added to the already steeply mounting curve the need became urgent. It is important to distinguish between the increases in welfare expenditure which are directly due to the depression and those which would presumably have occurred in any case. The existing governmental framework and organization for public welfare purposes has proven woefully inadequate under depression conditions, but the present policy of meeting the situation by a series of *ad hoc* arrangements might conceivably be justified only if the new demands were of a temporary emergency character. If, on the other hand, the depression has simply intensified and brought to a head a situation which was developing in any case, and which the existing distribution of governmental powers and responsibilities had not been designed to meet, and has been proven incapable of meeting, a more comprehensive and constructive approach to the problem is necessary.

Public Welfare other than Relief.—Public welfare expenditures other than relief (including old age pensions, hospitals, asylums, public health and sanitation measures) rose from $72 million to $124 million between 1930 and 1937. To some extent, of course, this increase was due to the depression, but to some extent it was merely the continuation of a trend inevitably associated with the economic and social evolution of Canada. Old age pensions which were the largest item were introduced successively by all the provinces and it was discovered that there were both an increasing number of people over seventy, and an increasing proportion of those over seventy who were unable to support themselves (and whose relatives could not, or would not support them).[7] The provision of a minimum standard of subsistence and decency for the helpless and indigent aged is almost unanimously recognized as a proper and desirable function of government today, but it is a service which is open to serious abuses, and which may have far-reaching and quite unexpected results on the family and social structure. Certainly it was never contemplated, when the Act was introduced, that within twelve years half the population over seventy would be receiving its benefits. Whether the method which has developed of financing three-quarters of the total pensions by Dominion grants-in-aid has been conducive to the greatest possible measure of efficiency is discussed in the Commission's recommendations on the allocation of social service jurisdiction.[8] The substantial transfer of the cost burden for this particular social service from municipalities to the Dominion government (relieving municipalities of the necessity of providing old people's homes and poor relief on the same scale as formerly) is only one, although the chief, example of a general trend of great significance. The distribution of public welfare (other than relief) expenditures between the three levels of government may be summarized as follows, and shows the greatly increased portion borne by the Dominion in recent years.

TABLE 82.—DIVISION OF PUBLIC WELFARE EXPENDITURES

(Other than Relief)

—	1913	1930	1937
	%	%	%
Municipalities	53	40	29
Provinces	30	42	36
Dominion	17	18	35

In one of the Commission's research studies[9] impressive statistics are presented of the economic loss to the country caused by ill health which is in many cases preventable. To the extent to which it is thought desirable, for both economic and

[7] Total Dominion, provincial, and municipal expenditures on Old Age Pensions. Estimated, on basis of continuation of same terms as at present, and of same proportion of population over 70 in need:

($ million)

	$		$
1927	0.3	1941	46.0
1929	3.5	1951	62·0
1933	17·0	1961	82·0
1937	39·0	1971	93·0

[8] See Book II, p. 32.

[9] See Appendix—A. E. Grauer, Public Health (Mimeographed).

humanitarian reasons, to improve the health of the population there will be an increase in public health expenditures since the people who require attention are likely to be people who cannot afford it. In addition, it must be recognized that the public welfare expenditures, including both disease preventive services and institutions of several provinces are materially below the standards which are generally believed necessary and were formerly maintained. The general effects which an increase in expenditures of this nature are likely to have on the public finance situation are discussed in the following pages on relief. Certain increases in expenditure would appear likely simply because of the increased scientific knowledge we now possess, and the greater facilities in modern communities to provide for improved health services. Quite apart from humanitarian considerations, well directed expenditures on these services (and our knowledge and ability to direct these expenditures are developing rapidly) should prove directly remunerative to the whole community.

Relief.—The various factors which have been responsible for the rise of the Canadian unemployment and relief problem have been developed at length in the previous chapters, and the present situation is discussed in the section dealing with the Commission's recommendations on the allocation of jurisdiction in social services. It is only necessary here to note the relation of these new expenditures to total government expenditures and their distribution.

From a negligible amount before 1930 (which is not shown separately in the Commission's summary of accounts since it was included with municipal poor relief under the classification of public welfare) relief expenditures (including relief works charged to capital account) rose to $165 million in 1937. A brief summary of these is given below:—

TABLE 83.—TOTAL RELIEF EXPENDITURES (INCLUDING RELIEF WORKS CHARGED TO CAPITAL ACCOUNT)

(Millions of Dollars)

——	1930	1931	1932	1933	1934	1935	1936	1937
A. Through provincial-municipal agencies—								
(1) Dominion share	3	34	34	28	43	41	52	55
(2) Provincial share	9	42	37	39	74	70	59	79
(3) Municipal share	5	16	21	23	23	24	23	18
Sub-total	17	92	92	90	141	134	134	152
B. Dominion expenditures through own agencies	1	5	3	8	17	39	26	13
GRAND TOTAL	18	97	95	98	158	173	160	165

The grand total expenditure on relief, on all counts, during the 1930 decade may be put at approximately $1 billion.

Taking current account expenditures only, relief and other public welfare each accounted for one-eighth of the grand total of all Canadian government expenditures in 1937. These consequently provide transfer payments and a redistribution of income on a hitherto unprecedented scale in Canada. To an important extent the increased relief expenditures represent assumption by the state of responsibilities formerly borne by relatives —relatives who now cannot or, if given an alternative, will not bear them; to a minor extent they represent assumption by the state of responsibilities formerly borne by private charity; to some extent they are either an alternative or a supplement to very low paid labour, and in the latter case a form of subsidy to some employers. But in spite of individual abuses which have occurred, and the unpredictable social and political effects of the major shift of responsibility for economic security from the individual and his family to the state which has occurred in the last decade, existing relief scales are rarely adequate to achieve their objective efficiently, i.e., to maintain the unemployed workers in a physically fit condition, and to ensure that their children are properly brought up. To some extent this is due to the lingering tradition that the individual should be responsible, in part at least, for his own welfare and that of his dependents; to some extent to the general practice of basing relief allowances on former poor relief standards, which were calculated with the object of maintaining non-workers alive, rather than of maintaining unemployed workers in good condition; to some extent to the fact that in the

early years of the depression many of the unemployed had certain reserves of their own—some savings, clothing and household goods, reasonably good health, etc.; and to some extent to the financial pressure on governments. Certain groups of the unemployed such as the transient and migratory labourers, and those who lived in areas where the local finances were in particularly bad condition, were worse off than the average, for no fault of their own, and suffered disproportionately and inequitably. Consequently, it is only realistic to assume that once the state accepts the responsibility of maintaining its unemployed under conditions which will keep them from becoming unemployable the cost will be higher than it has been in the past. (It must also be assumed that statutory minimum wages will be sufficiently above the relief scales to provide an incentive for work). On the other hand, it may be argued that the total cost in this case would be less than the present direct and indirect economic costs, to say nothing of the human values involved. Furthermore, organization of relief on a business-like basis would prevent many abuses and check many wastes which occur today.

The assumptions underlying this discussion are that unemployment, of some degree, is likely to be a permanent factor, and that the primary responsibility for maintaining the unemployed has become that of the state. Our economic analysis would suggest that the former assumption is now a probability, and, except under very unusual circumstances, a virtual certainty. The latter assumption, although representing a complete reversal of an earlier North American philosophy to which lip-service is still widely paid, has become, as a result of underlying economic changes, almost unconsciously but inevitably the ruling view. Given these premises the most important problem for the Commission is to determine how the responsibility can be most efficiently and equitably met. This problem will, however, be reserved for Book II.

The problem of large transfers of this nature, for which no immediate service is provided, is a new one in the Canadian public finance system, and because of the huge volume of the transfers (equal to total governmental expenditures in 1913) it is an extremely important one. Because of the breakdown of the accepted jurisdictional division of responsibility it has not been possible even to work out an efficient administrative technique to handle the problem. Even less has an approach been made to an understanding of the economic factors involved, and to exploration of constructive policies and preventive measures, through co-ordination of relief policy with banking and exchange policies, public works, deficit financing and taxation policies, and commercial and industrial policies. Of particular importance for our immediate purpose, no thorough studies have been made of the effect of the great increases in transfer payments on the size and distribution of the national income and of the appropriate tax structure in relation to the new forms of expenditure which have been assumed. Nevertheless, there is an important relationship; it is clear, for example, that, once government has undertaken to provide a fixed minimum subsistence for a section of the population, there is substantial waste in imposing taxation—usually indirect taxation which requires the consumer to pay more than the government receives—on the same section of the population at the same time.

Social service transfer payments, and relief in particular, have been popularly singled out as the most significant public finance developments of the period. To critics of the philosophy underlying them they are a growing evil, to be tolerated in emergencies only in preference to the greater disaster of revolution; to supporters they are a means of achieving a new measure of economic security, greater justice, and greater happiness for the population as a whole; to governments they present new problems of fiscal as well as social policy, and a challenge that both the expenditures themselves and the accompanying taxation should be as efficiently and equitably organized as possible. Under the present division of jurisdiction and taxation powers in Canada, whose drafters could not, of course, foresee the development of this type of expenditure with all its corollaries, no effective approach by governments has been made to such a goal.

2. Government Revenues

The revenues of Canadian governments are summarized for the approximate calendar year 1937 in the following table. It is extremely difficult to make a simple and realistic taxation classification. Neither the accounting division of itemized "tax" and "non-tax" revenues, nor the constitutional division of "direct" and "indirect" taxes has any particular significance or utility for economic description and analysis. Both these classifications have necessarily been developed, in great and precise detail, as useful tools for certain specific but limited purposes, and have, in their respective connections, acquired a pseudo-scientific weight.

TABLE 84.—REVENUES OF ALL GOVERNMENTS, 1937

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
GROUP I—				
Customs (ex. liquor)	105	—	—	105
Excise (ex. liquor)	32	—	—	32
Manufacturers Taxes	17	—	—	17
Sales Taxes	138	2	4	144
Gasoline Tax	—	39	—	39
Liquor Taxes and Profits	27	30	—	57
Automobile Licences	—	26	—	26
Amusement Taxes	—	3	—	3
Property Taxes on Improvements	—	3	112	115
Surplus Utility Earnings	7	1	6	14
Miscellaneous (Stamp Taxes, etc.)	11	5	17	32[a]
	337	109	138	584[a]
GROUP II—				
Corporation Taxes	72	34	—	106
Company Fees	2	8	10	20
Public Domain	2	21	—	23
Business Property Taxes	—	—	14	14
Property Taxes on Real Estate	—	3	144	147
	76	66	168	310
GROUP III—				
Personal Income Taxes	51	12	2	65
Succession Duties	—	36	—	36
	51	48	2	101
Dominion Subsidies to provinces[b]	—	21	—	[a]
GRAND TOTAL	464	244	309	995[a]

[a] After elimination of double counting.
[b] Provincial subsidies to municipalities have been deducted from offsetting expenditures.

In Canada the distinction between "tax" and "non-tax" revenue is largely the reflection of the evolution of the technique of taxation which has been made necessary by the increasing complexity of the economy, constitutional difficulties, and the growing demands of government. When governments collected and spent a relatively small proportion of the national income, and when incomes were more evenly distributed, a revenue system of flat-rate licences, royalties, and taxation which approximated a per capita levy, was administratively the most simple; and it was adequate for its purposes without causing serious inequities or distress. But as more and more of the national income came to be collected and spent by governments such arbitrary methods of raising revenue became increasingly impracticable and inequitable. It became necessary to develop taxation systems which were more delicately adjusted to capacity to pay;—at first crude measurement of gross income was sufficient, but as government demands increased in successive waves, refined measurement of net income became necessary. Whether the particular method employed was a graduated "licence" or a "tax" was simply an accident of historical nomenclature. Today a substratum of "non-tax" revenues, which are really specific taxes on selected objects, exists, but it has become an integral (although minor) part of the whole tax system. (Some "non-tax" revenues are in quite different categories. Fines, sales of services and commodities at cost, and interest earnings are not properly part of the public finance system at all, and should be netted against the corresponding expenditures. Trading profits, such as derived from provincial Liquor Commissions, are, however, highly developed forms of taxation from which the Government derives a combination in indeterminate proportions of a tax, based on capacity to pay and ease of collection, a fine based on the contemporary standard of moral values, and a business profit or loss based on the efficiency and judgment of the government enterprise.)

Originally, "direct" and "indirect" taxation were useful economic concepts. Incorporated in the British North America Act the terms became subject to interminable legal and political controversy. The courts were compelled to work out a definition which was broadly applicable in a formal way. In doing so they cited John Stuart Mill's definition as an authority, and developed it in meticulous detail. Today the "direct" and "indirect" taxation terms apply only to what the courts have held to be *intra vires* or *ultra vires* provincial jurisdiction.

In the foregoing table Canadian government revenues are listed in three groups. This listing is not a classification, for reasons which will be noted, but it may serve to bring out some of the distinctive features of the Canadian revenue system.

Group I consists of taxes on specific commodities paid, normally, by the consumers of these commodities. Group II consists of business and property taxes, which fall to some extent on ultimate consumers, to some extent on monopoly and scarcity-value rentals, to some extent on entrepreneurial net income, and in some instances on entrepreneurial capital.[10] Group III contains the nominally "progressive" taxes—personal income taxes and succession duties.

Group I—Consumption Taxes.—Some of the limitations of this grouping should be noted. The first group which we may call consumption taxes, are in general regressive, yet individual consumption taxes may contain important elements of progressivity.[11] An obvious example of the latter case is the very high rate of taxation on certain selected luxuries, such as fine wines and liquors, which are presumably purchased chiefly by the wealthier classes. Even the general sales tax contains some element of progressivity as a result of the exemption of a number of necessities, although the exemptions are such that the incidence of the 8 per cent sales tax varies more between occupational groups—e.g., farmers and clerks—than between most income groups. Although there are modifications in the regressivity of consumption taxes made by special luxury taxation and the provision of exemptions on certain necessities, it must be remembered that these modifications apply only to expenditures on commodities. Expenditures on services and savings, which become increasingly important as income mounts, operate to reduce the proportion of consumption taxation to the total *incomes* of wealthier classes, although the proportion to certain categories of *expenditures* may increase.

In the lower income groups the 8 per cent sales tax may be estimated as taking from 3½ per cent to 5½ per cent of income, depending on the distribution of consumption. This is a very much higher proportion than taken by this particular form of taxation in other countries, but on the other hand, it is important and relevant to note that most other countries employ some form of payroll tax to finance at least part of their social service expenditures while Canada does not. It would not be strictly accurate to compare the sales tax with social service premiums and there is, of course, no relation whatever between the taxes paid and the benefits received by the individual. From the public finance point of view, however, it does extract about as much revenue from roughly the same class (in proportion to the taxpayers' incomes, and in proportion to social service expenditures) as social service premiums do in other countries—a fact which becomes of great importance when consideration is being given to the introduction of social insurance schemes. It would seem necessary to look on the sales tax at its present level as an alternative (and possibly an undesirable one) to social insurance premiums and not as a quite separate and independent revenue measure. It automatically provides for complete coverage (except in the cases of specified exemptions) and is relatively simple to collect, but has the serious flaw that consumers are required to pay more than the government receives, the difference representing the necessary mark-up in prices to provide for the higher overhead costs per unit on a smaller volume of business. It is impossible to segregate and earmark the amounts paid by low income groups.

It is not surprising that consumption habits will influence the amount of consumption taxation payable, but the extent of variation is notable. Individuals whose tastes run to beer, cigarettes, and movies (or to champagne, cigars, imported tweeds and super-charged cars), will pay proportionately several times as much in consumption taxation as abstemious citizens. Such comparisons illustrate the inevitable use of the powerful instrument of taxation for economic, social, and even

[10] Property taxes (including interest on tax arrears) have been divided between Group I and Group II on the basis of the division of property assessments between land and buildings. The latter is estimated (complete figures are not available) as 44 per cent for buildings and 56 per cent for land. Taxes on buildings are treated for this purpose as consumption taxes; taxes on land as business taxes falling on monopoly and scarcity value rentals.

[11] A regressive tax is one which takes a larger percentage of a low income than of a high one; a progressive tax takes a larger percentage of a high income than of a low one; a proportionate tax takes the same percentage of all incomes.

moral, as well as fiscal, objectives. Certain contradictions and clashes which arise in this process are important from the fiscal point of view. To the extent to which taxation is successfully used, for alleged moral or economic reasons (e.g., as a punitive deterrent to drinking whiskey, importing foreign goods, going to horse races, or accumulating large fortunes) it fails to raise revenue. When non-fiscal criteria become of dominant importance in shaping taxation policy, not only are new complexities and inequities introduced, but unexpected strains are thrown on other parts of the system. The outstanding example, of course, is the customs tariff which, to the extent it becomes protective, ceases to be revenue producing. Similarly, tobacco and liquor taxes (which in Canada yield considerably more than all personal income taxes) are frequently footballs of conflicting policies. Of less clear but possibly greater economic importance may be the effect of very steeply graduated income and succession duty rates, which have been established at penalty rates on very high incomes and large inheritances for other than purely fiscal reasons.

Group II—Business Taxes.—The business and property taxes listed in Group II not only possess highly diverse characteristics at any one time, but frequently alter in kind at different stages of the business cycle. Normally, a substantial portion of these taxes—say property taxes, public domain revenues, and perhaps one-third of corporation taxes—may be considered a levy on the rental values arising from scarcity of land and other resources. As long as business conditions are such as to justify the existing capitalization of these resources such taxes are not burdens on costs, but simply the transfer to society of the increase in incomes which has been created in large part by the development and expenditures of organized society. But if the earning power, and therefore the rental value, of these resources decline without a corresponding fall in taxation these taxes become a capital levy. Some of the business taxes (i.e., the fixed taxes on corporations) are normally consumption taxes, but, as in the case of other consumption taxes, under some conditions and for relatively short periods of time they may be absorbed by the producer. The remaining portion of corporation taxes are flat-rate levies on corporation net income. As this income belongs to the shareholders, such a tax (which is not permitted as a deduction from the income tax of the individual shareholder) is both discriminatory between different classes of assets (e.g., as between bonds and stocks) and, according to the principles of progressive income tax rates adopted in personal income taxation schedules, inequitable as between different income levels. On the other hand, it may be argued that this special levy is discounted in the market price of corporate securities, and that people who have purchased corporation securities under the existing tax rates suffer no relative disability. The special taxation on corporate profits may, however, have a significant effect on investment, and from the point of view of the individual investor may be sufficient to tilt the balance in favour of hoarding or bond investment as compared with investment in equities, or to influence a company promoter to bond his company to the limit rather than to finance by common stock.

It is unfortunate that the taxes in this group cannot be more precisely classified. Virtually their only common characteristic is that they are levies imposed at some intermediate point in the production-consumption cycle and are peculiarly subject to shifts in incidence as general business conditions change. Some of these shifts are on occasion highly inequitable and have disastrous economic effects (e.g., the shift in property taxation during a period of falling land values from a levy on socially created surpluses to one on capital). It is perhaps this group which should be particularly subject to constant review in framing the most desirable tax policy, and in which indiscriminate increases during periods of depression are likely to have the most harmful general effects. We have noted, however, that the existing constitutional straitjacket has virtually forced provincial governments into arbitrary increases of substantial amount in this form of taxation in recent years.

Group III—Progressive Taxes.—Personal income taxes and succession duties in Group III are (with the exception of straight proportional levies such as the special Income Tax in Manitoba), progressive taxes falling on surpluses (i.e., income in excess of that necessary for subsistence), and cannot, with very few exceptions, be shifted. It is only in this group that the final incidence of taxation can be exactly determined and delicately adjusted (presumably a *sine qua non* of equitable and efficient taxation), but it must be noted that the exemptions provided and the rate of progression are frequently determined by non-fiscal and non-economic influences and political pressures. Too little is known at present of the ultimate economic effects of different rate-curves and changes in these taxes to set up any objective economic criteria, and the need for planned

research as a guide to Treasury policy is evident. The tremendous importance of these forms of taxation as instruments of social as well as fiscal policy makes it impossible to eliminate what may frequently be conflicting influences, but much would be gained by distinguishing and setting out the various factors as clearly as possible.

Characteristics of the Canadian Tax System.— The fact that more than half the total governmental revenues and expenditures are local and provincial makes it difficult and somewhat unrealistic to discuss as a whole, as if Canada were a unit, the incidence of the Canadian taxation system, the services provided by government, and the resulting transfers of income. However, complex and occasionally confused and conflicting as the Canadian tax structure is, there are some outstanding characteristics.

The system as a whole, as compared with that in other countries, is highly regressive, with the qualification that it is very steeply progressive in the higher income groups. As consumption taxes make up nearly 60 per cent of total government revenues (which in turn, it will be remembered, equal some 30 per cent of the national income), and as various forms of business taxes make up another 30 per cent, only 10 per cent of total government revenues are in forms to which any scientific principles of progressivity can be applied in order to redress the regressivity inherent in the heavy Canadian consumption taxes. Further, three-quarters of this 10 per cent comes from personal incomes of more than $10,000 and proportionately large estates and 35 per cent from the $50,000 a year group and over; the Dominion income tax on very large incomes is one of the highest in the world, and the combined Dominion-provincial tax in the four Western Provinces is perhaps the highest. When the combined Dominion-provincial income tax reaches such figures as 105 per cent of the total income (as in Alberta, for example, on an income of $1 million), the principle of progressivity has been carried to a fantastic extreme. Between the very wealthy man who is carrying one of the heaviest income tax loads in the world, and the very poor man who is carrying one of the heaviest consumption tax loads in the world is the large middle income group which escapes relatively lightly. It is primarily by adjustment of the income tax curve of progressivity that this trough in the curve of progressivity in the tax system as a whole can be removed, and the extreme impositions at each end of the curve modified. The present situation appears inequitable, although it must be admitted that it is impossible to define "equity" in this instance in absolute terms. Equity as between income classes is basically a matter of social philosophy, and it must be left to the political crystallization of the prevalent philosophy to determine, for example, whether taxation should be progressive, and if so, at what rate.[12]

But in this connection it is important to note the obstacles to the use of the income tax as an instrument of either social philosophy or efficient fiscal practice which are presented by the existing division of tax powers and the joint occupation of the field by the Dominion, provincial, and even municipal governments. In Book II[13] a table is given showing the amount of income tax payable by residents of each province on incomes of $3,000, $10,000, and $100,000. On the last income[14] the tax payable to Dominion and provincial (or municipal) governments varies from 33 per cent of the total income in Nova Scotia (Halifax) and Quebec (Quebec City) to 58 per cent in Saskatchewan (Regina). In addition to such substantial differences between the amount payable, there are major differences in exemptions and in determination of taxable income in different jurisdictions.[15] Quite apart from considerations of the apparent inequity of these variations is the fact that the joint occupation of the field makes it mechanically impossible to develop an income tax which will, in itself, apply to different income groups in what is currently considered an equitable manner, and which can be adjusted to the desired degree of progressivity of the tax system as a whole.

Another outstanding characteristic of the Canadian tax structure is the high proportion of taxation on costs, as contrasted with the low proportion of taxation on surpluses and net incomes, and the amount of taxation of a character which is likely to be shifted from surpluses to capital or costs in times of depression. Taxation which falls directly on business enterprises, as such; taxation which is based on an arbitrary capitalization of income which does not, in fact, materialize; taxation which increases the costs of living at a subsistence level, and which consequently either increases wage costs and the costs of operation of farmers and other individual entrepreneurs in the

[12] See Book II, Sec. B., Chap. VIII, for a discussion of equity and efficiency in taxation.

[13] Section B, Chap. III, p. 111.

[14] Prior to the September 1939 increase of 20 per cent in Dominion rates.

[15] See Book II, p. 158, for illustration of effect of double taxation of income in Western Provinces as compared with Ontario practice which exempts Dominion tax paid from the provincial definition of taxable income.

long run, or forces living standards of large portions of the population below the minimum desirable level;—all these are taxes on costs. The alternative is taxation designed to fall on the income of individuals which is in excess of that necessary for subsistence. This brings up the whole problem of the "efficiency" of the present tax system. "Efficiency" in its most narrow sense might be interpreted as economy in collecting the existing taxes. In a broader, and far more important, sense it is skill in collecting a given amount of revenue with the least possible burden on the national income. In both senses the Canadian taxation system fails. Duplicate taxation machinery, inadequate and divided jurisdiction (involving cumbersome and expensive devices to do indirectly what the constitution prevents from being done directly), and lack of uniformity, all contribute to unnecessary expense and reduced returns. Of immensely greater concern, the lack of co-ordination in tax policies, and the almost uniquely high proportion of the Canadian taxation burden on costs rather than on profits, reduce the Canadian national income seriously. The national income is depressed in both a positive way, through restriction of marginal investment, production, and employment, and in a negative way through obstruction of the use of fiscal policy as a stimulant. These are criticisms partly of general taxation policy, and partly of the current working division of taxation powers between the different levels of government. To what extent the latter is significant will be examined in more detail.

3. Federal Division of Revenues and Expenditures

It seems generally accepted that it was the intention of the Fathers of Confederation, and indeed the only basis on which the Dominion could be built, that the central government should possess the revenues and carry the expenditures which were national in scope, while to the provinces and municipalities should fall the revenues and expenditures of provincial or local nature. The difficulties lie in translating at any given time these general principles into terms of specific taxes and responsibilities, and, when the appropriate revenues and expenditures fail to balance, in providing for adjustments, without infringing on the autonomy of each government in its proper sphere. As our historical review has developed, an additional difficulty has been the changes in the character of many governmental responsibilities and revenues as the economy evolved, and as governmental activity and the public finance system expanded.

Table 85.—Division of Government Expenditures between the Dominion, Provinces and Municipalities, 1937

—	Share of each Government in Total Expenditures				Percentage Distribution of each Government's Expenditures			
	Dom.	Prov.	Mun.	Total	Dom.	Prov.	Mun.	Total
1. Primary Functions[a]—								
National defence, military pensions and aftercare	100	—	—	100	23	—	—	11
Legislation, administration justice and miscellaneous	31	25	44	100	12	18	28	18
Sub-Total	57	16	27	100	35	18	28	29
2. Education[a]	—	28	72	100	—	13	32	12
3. Development and Transportation[a]	56	28	16	100	35	32	17	30
4. Public Welfare[a]—								
Relief	54	33	13	100	17	19	7	15
Other	28[b]	37	35	100	9	18	16	14
5. Subsidies to Provinces	—	—	—	—	4	—	—	—
Total Debt Charges[c]	(62)	(19)	(20)	(100)	(35)	(20)	(20)	(27)
Total	48[d]	26	28	100	100	100	100	100

[a] Including debt charges.
[b] Excluding $8·9 million to maintain annuities reserve.
[c] Already included in previous items.
[d] Including subsidies to provinces.

In 1937 nearly one-half of all public expenditures was made by the Dominion Government. Almost 60 per cent of the total federal outlay is in connection with national defence, the provision and maintenance of railway and waterway facilities, and development, all of which are essential national functions for which the Dominion was established. Another 12 per cent of Dominion expenditures is devoted to legislation, justice, and general administration, 4 per cent goes to unconditional provincial subsidies; and the remainder, 26 per cent covers relief and other public welfare. With the exception of the latter there are no noteworthy departures from the original conception of the purposes of the Dominion. Public welfare has been generally regarded as the primary responsibility of the provinces and municipalities. In the preceding chapters we have described how, under the pressure of circumstances, the Dominion was obliged to take over an increasing share of public welfare and relief costs. The manner in which the Dominion has assumed some of the financial obligations for these services, however, constitutes one of the weakest features of the Canadian public finance system. Although the Dominion pays for 44 per cent of all public welfare costs (75 per cent of old age pensions and 54 per cent of relief) it has very little control over the outlay of its funds or over general policy since the expenditure of the money and administration remain with the provinces and the municipalities.

The provinces and municipalities each take care of slightly more than one-fourth of the total costs of government. They provide nearly 70 per cent of the total outlay on the primary legislative, regulative, protective and administrative functions. Almost three-fourths of the total cost of education is dependent upon the highly decentralized revenue sources of the municipalities; the remaining 28 per cent is obtained from the somewhat broader sources of the provinces. Prior to 1914 by far the greater part of the burden of transportation and development was carried by the Dominion. With the coming of the motor car and the decline in the rate of national expansion, a rapidly growing portion of these responsibilities fell upon the provinces. At the present time highways, streets, outlays borne by the provinces and municipalities to support local industries and to encourage the exploitation of provincial resources, constitute 44 per cent of the total government expenditures on transportation and development. However, the

Table 86.—Division of Government Revenues between the Dominion, Provinces and Municipalities, 1937

	Share of each Government in Total Revenues				Percentage Distribution of each Government's Revenues			
	Dom.	Prov.	Mun.	Total	Dom.	Prov.	Mun.	Total
Group I (Chiefly Consumption Taxes)—								
Customs (ex-liquor)	100	—	—	100	23	—	—	11
Excise (ex-liquor)	100	—	—	100	7	—	—	3
Manufacturers' Taxes	100	—	—	100	4	—	—	2
Sales Taxes	96	1	3	100	30	1	1	14
Liquor Taxes and Profits	47	53	—	100	6	12	—	6
Gasoline Taxes	—	100	—	100	—	16	—	4
Automobile Licences	—	100	—	100	—	11	—	3
Property Taxes on Improvements	—	3	97	100	—	1	36	12
Miscellaneous, Taxes and Receipts	37	16	46	100	4	4	7	4
	58	18	24	100	74	45	44	59
Group II (Chiefly Taxes on Business and Scarcity Values)—								
Corporation Taxes	68	32	—	100	15	14	—	11
Company Fees, Licences, etc.	11	39	50	100	—	3	3	2
Public Domain	10	90	—	100	—	9	—	2
Business Property Taxes	—	—	100	100	—	—	5	1
Property Taxes on Real Estate	—	2	98	100	—	1	47	15
	25	21	54	100	15	27	55	31
Group III (Progressive Taxes)—								
Personal Income Taxes	79	18	3	100	11	5	1	6
Succession Duties	—	100	—	100	—	15	—	4
	50	48	2	100	11	20	1	10
Dominion Subsidies to Provinces	—	—	—	—	—	8	—	—
Total	47	22	31	100	100	100	100	100

greatest increase in public responsibilities has occurred in the field of public welfare which has grown from virtual insignificance to where it absorbs almost 30 per cent of the total government expenditures. Although the provinces and municipalities are now receiving substantial financial aid from the Dominion for these services, they are still paying more than half the total cost.

The economic and social changes within the framework of the Canadian constitution have raised the provinces and the municipalities to a very important position in the public finance system—a position which they cannot efficiently occupy on the basis of their necessarily limited revenue sources. This situation is especially aggravated by the increasing load of deadweight debt, the interest charges on which now comprise one-fifth the aggregate municipal-provincial expenditures.

Reviewing the present division of revenues and responsibilities between the different levels of government, it is clear that certain taxes and functions are pre-eminently either national or local in nature, but that there are many which cannot be so simply and satisfactorily classified. Of Dominion revenues, customs and excise duties are not only essentially central government taxes, but they are the very essence of a central government. This is so generally recognized that it does not require development, other than to note the possibility of departing from the principle and thwarting the intention of this fundamental allocation of powers by devising protective forms of local taxation and expenditure.

Our historical and economic review has shown the extent to which Dominion tariff policy, Dominion railway policy, and other necessarily associated national policies have built up an interdependent economy. The whole nature of economic activity and structure of private enterprise in Canada have been moulded by these national policies, and, of particular concern to public finance policy, the localization of net income from national enterprises has been largely determined by them. Certain public finance implications follow as a natural consequence.

The Dominion, by its large-scale intervention in the economic life of the country, and as a corollary of its conscious policies of selected stimuli, protection, and control, has unconsciously committed itself to many responsibilities for the maintenance of economic welfare. On the other hand, it has created a claim for itself to tax whatever surplus incomes and fortunes are accumulated within the framework of its policies.

These implications, as noted in our historical section, have not been generally recognized, and a fortuitous sequence of events concealed the necessity for recognizing them until recent years. We have noted how the Dominion, faced successively with the emergencies of war, the financial débâcle of its developmental program, and depression, turned to an *ad hoc* and somewhat indiscriminate imposition of taxes throughout nearly the whole field, and how it also assumed, in a tentative, inefficient manner, some of the responsibility for developmental programs and unemployment and drought relief which overwhelmed the provincial and local governments. At no time has the situation been reviewed and realistically faced; as a result the Dominion system includes neither the direct responsibility for maintaining certain minimum standards of governmental services, nor the undisputed control of the chief instruments of taxation of national net income that one might expect as an essential corollary of its responsibilities, and of the type of economy which has developed under its guidance. Instead, the Dominion has added to its basic customs and excise revenue sources a uniquely high sales tax, heavy corporation taxation and a personal income tax that rises steeply in the upper brackets.

As a result of this undirected growth the Dominion's public finance system is open to criticism both for what it includes and what it omits. Its taxation system is not adjusted to the national net income and under the present division of revenue powers cannot be so adjusted. Even the personal income tax, producing 11 per cent of the Dominion revenue and 5 per cent of total provincial revenues, takes widely varying proportions of equal incomes from residents of different provinces. The corporate income tax (which provinces also impose to varying degrees) is a flat-rate levy regardless of the income of the corporate shareholder and owner, and as such violates our generally accepted canons of equitable taxation. The remaining Dominion taxes—three-quarters of the total—have no direct (although in cases they may have an indirect) relationship to net income, considered from either an income class or regional point of view.

The total revenues of provincial governments are about half those of the Dominion; total municipal revenues are about two-thirds those of the Dominion. But while municipal revenue is largely concentrated on real property taxation, provincial revenues come from widely diversified sources. Of

first importance to provincial governments are consumption taxes, chiefly automobile (including gasoline) and liquor levies, accounting for nearly half the provincial revenues before subsidies. Taxes on business (including public domain revenues, which are, broadly speaking, alternatives of fundamentally the same character) make up a little more than a quarter of the total; taxes on income and inheritances, a little less than a quarter. The importance of the post-War development of provincial consumption taxes has been discussed in our historical review, but, although they now bulk largest in dollars and cents and have played a significant part in the shift in the balance of Dominion-provincial power, provincial business taxation, income taxation, and succession duties are perhaps of more particular concern for the present discussion. We have noted how the hard-pressed provinces branched out into new fields of taxation, and the cumbersome methods to which jurisdiction limitations compelled them to resort on occasion. Because of the very unequal distribution of corporate and entrepreneurial income and accumulated wealth throughout the country (partly as a result of the operation of national policies), this particular tax basis varies widely between provinces and has little relation to individual provincial responsibilities. It is in the employment of these forms of taxation that the greatest variations exist between provinces (and, of course, the greatest variations in incidence on individuals); vigorous application of these taxes in Ontario during a period of business recovery yielded the province a handsome surplus; no conceivable vigour of application could meet the western situation; reluctance to increase these forms of taxes left Quebec, and to a lesser extent the Maritimes, unable to balance their budgets.

4. Provincial Finances

In the following review of the financial position of the individual provinces per capita figures of revenue and expenditure have been used in order to facilitate comparisons. These figures must be considered in relation to the provincial income and particularly to the taxable surplus income, and also to the amount of services supplied through community agencies rather than privately, and to other special circumstances which may make direct comparison between two provinces misleading. In order to give for each province as accurate and comprehensive a picture of the financial position as possible, provincial and municipal revenues and expenditures have been combined. This is particularly necessary if comparisons are to be made between provinces, owing to the great variations in the division of responsibility for such functions as education, welfare, and highway maintenance. The proportion of the total cost of each of these services borne by the provincial government varies widely both as between provinces and in any one province as between periods. In all cases, although most notably in highway and relief expenditures, there has been a trend to assumption of an increasing share of the cost and increasing responsibility for administration by the provincial government.

All revenues and expenditures need not be discussed in the same detail in every province, and attention has been chiefly directed to those features which show significant variations between provinces and have a special bearing on Dominion-provincial relations and those which are of particular importance to the individual provincial fiscal system and economy. The major functions of education and public welfare (other than relief) which account for 35 per cent of provincial and municipal expenditures, are discussed together since they normally have similar characteristics. Relief expenditures in each province during recent years have been discussed in some detail in Chapter VI.

Prince Edward Island

Table 87.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.
Real Property Taxes	4.43	22.60	20	45	1.13	0.53	3.30	22.07
Gasoline Taxes and Motor Vehicle Licences	4.45	5.84	20	12	4.45	5.84	—	—
Public Domain	—	1.90	—	4	—	1.90	—	—
Liquor Control	0.43	2.68	2	5	0.43	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	3.14	6.85	14	15	1.36	1.64	1.78	5.20
Sub-Total	12.45	39.87	56	81	7.37	12.59	5.08	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	1.77	3.06	8	6	1.77	3.06	—	—
Income Taxes on Persons	0.37	1.24	2	2	0.37	1.07	—	0.17
Succession Duties	0.48	3.22	2	6	0.48	3.22	—	—
Total Revenue from Provincial Sources	15.07	47.96	68	96	9.99	20.11	5.08	27.84
Federal Subsidies	7.06	1.91	32	4	7.06	1.91	—	—
TOTAL	22.13	49.87	100	100	17.05	22.02	5.08	27.84

Revenue System

Statistical comparisons between a unit with a total population of about one-tenth that of the Toronto metropolitan area and, say, the Province of Ontario are of little value or significance. For many purposes Prince Edward Island must be considered quite separately. But if a comparison is to be made with other provinces, the most striking feature of Prince Edward Island's provincial and municipal revenue system is the relatively large amount derived from federal subsidies—more than three times the per capita average for all provinces. Total provincial and municipal revenues from within the Province, on the other hand, are only one-third as much as the per capita average for all provinces, and not one of the chief taxes or groups of taxes is up to the average. There are, of course, special circumstances which account for this and such a comparison in itself cannot be taken as evidence that Prince Edward Island is undertaxed. The subsistence nature of the economy, the low average net value of agricultural production, and the lack of urbanization are reflected in a total real property tax yield which is only one-fifth the Canadian per capita average. The Province's lack of any public domain is responsible, of course, for the absence of revenue from that source, and the Provincial Government's liquor control policy yields only a small fraction of the average receipts in other provinces. The absence of any notable concentration of corporate or personal income and wealth in the Island makes it impossible to secure a substantial yield from income taxes and succession duties, although special inducements have been granted companies to incorporate within the jurisdiction of the Island Government.

Not only is the revenue system affected by the lack of urban, industrial or individual concentrations of wealth in the Island economy, but also by the relatively low average income (scarcely more than one-half the Canadian average) which leaves little margin available for general consumption taxation. In spite of the fact that Prince Edward Island is the most perfect geographical entity of any Canadian province, it does not form a satisfactory unit from the point of view of public finance, and particularly for raising revenue. The manifest inability of a small agricultural economy, possessing no taxable surplus, to raise revenues and to finance services on the same scale as in the rest of Canada was recognized from the first in the special debt allowance, and subsidy in lieu of land, pro-

vided when Prince Edward Island entered Confederation. Much of Prince Edward Island's financial history since then has been one of subsidy claims and adjustments, and special increases in 1887, 1901, 1911, and 1935 maintained the subsidy as much the most important source of revenue.

As a result of the relatively large proportion of the revenue provided by the fixed subsidy and of the small proportion derived from such normally fluctuating sources as public domain, liquor control and progressive taxation, the Island Government's revenues are exceptionally stable but also inelastic.

TABLE 88.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.
Net Debt Charges	3.61	9.52	17	20	2.38	4.59	1.23	4.94
Public Welfare—								
Relief	0.84	5.45	4	11	0.52	3.86	0.32	1.59
Other	2.96	7.26	14	15	2.74	4.05	0.22	3.21
Education	5.90	9.78	28	20	3.76	2.89	2.15	6.89
Agriculture and Public Domain	0.49	1.86	2	4	0.50	1.86	—	—
Transportation	4.35	5.03	20	10	3.60	2.27	0.75	2.75
General Government and Miscellaneous	3.17	9.80	15	20	2.26	3.77	0.89	6.03
Total	21.32	48.70	100	100	15.76	23.29	5.56	25.41
Per Capita Provincial Income, $	194	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	92	291	—	—	64	177	28	115
Percentage of Current Expenditures to Provincial Income	11	14	—	—	8	7	3	7
Percentage of Outstanding Debt to Provincial Income	47	84	—	—	33	51	14	33

Expenditures

In keeping with the rigid and limited character of governmental revenues, provincial and municipal governments have performed their functions with great frugality and economy. The small area and population of the Province have made it possible to dispense with an extensive municipal organization, but, on the other hand, there are certain basic essentials of provincial government which must be provided. Even when the overhead costs of these are kept at the possible minimum level they are uncontrollable and relatively high in relation to the small population. All the functions of government are provided for at substantially lower per capita costs than in other provinces, in part because these functions are much simpler in such a small unit, in part because smaller cash incomes can be paid in a community which largely lives on its own produce, and in part because the Government cannot afford to pay more.

Debt charges have in the past been held at a relatively low figure (about one-third of the Canadian average per capita) because the Province has not had to provide expensive transportation and frontier developmental facilities.* But this position has been somewhat altered by the Province's highway and relief work program in recent years, and net interest charges have more than doubled during the last decade. Borrowing has been done, however, at relatively advantageous rates, and the technical position of the provincial debt is exceptionally strong. There are no bonds payable in other than Canadian currency now outstanding; maturities are evenly spaced; and the sinking fund is strong.

Expenditures on education are some 40 per cent below the national average per capita and expenditures on public welfare (other than relief) 60 per cent less. It is true that a less varied and high

*It may, however, be noted that the Province became bankrupt through railway expansion prior to its entry into Confederation.

degree of specialization is necessary; that necessary physical plant is cheaper; that lower costs of living permit payment of lower salaries; and that family solidarity and a relatively high degree of self-sufficiency bear many burdens which are transferred to the state in other provinces, but in spite of all these factors, it is clear that standards are inadequate and below the average in many cases.

Direct relief expenditures have been kept to relatively negligible amounts, but the provincial government's public works program has been carried out on a large scale and has been responsible for aggregate expenditures on relief, relief works and other public works equal to the same percentage of the provincial income as similar expenditures in Ontario.

Transportation expenditures are closer to the national average than expenditures for most other services, and efforts to encourage the tourist trade may increase them. Expenditures on agriculture and development of other resources are low, in part owing to the lack of any provincial public domain, but this may be one of the fields in which enforced economy has been costly in view of the necessity of utilizing and co-ordinating the Island's limited resources to the maximum possible advantage.

Summary

With federal subsidies providing for approximately one-third of total provincial-municipal expenditures, and with some reserve of taxation (although in view of the general economic position of the Island's agricultural industry, no great reserve), it should be possible to maintain and gradually to improve services under the present system. Expenditures have been economically administered and the Island's credit and prospects of financial stability are good. On the other hand, there is little prospect under the present system of the Island Government being able to raise sufficient taxation from the sources open to them to bring the standards of governmental services to real equality with those in the rest of the country. This is a factor of growing importance owing to the cessation of the emigration which formerly absorbed the Island's natural increase of population. To provide for this population increase it would appear necessary either to foster some intensive domestic development, for which no economic base is at present evident, or to equip potential emigrants with at least as good training and education as possessed by other Canadians.

Nova Scotia

Table 89.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.
Real Property Taxes	13.02	22.60	37	45	0.88	0.53	12.14	22.07
Gasoline Taxes and Motor Vehicle Licences	6.24	5.84	18	12	6.24	5.84	—	—
Public Domain	1.54	1.90	4	4	1.54	1.90	—	—
Liquor Control	2.66	2.68	7	5	2.66	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	5.43	6.85	15	15	0.73	1.64	4.70	5.20
Sub-Total	28.89	39.87	81	81	12.05	12.59	16.84	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.07	3.06	6	6	2.07	3.06	—	—
Income Taxes on Persons	0.09	1.24	0	2	—	1.07	0.09	0.17
Succession Duties	0.93	3.22	3	6	0.93	3.22	—	—
Total Revenue from Provincial Sources	31.98	47.96	90	96	15.05	20.11	16.93	27.84
Federal Subsidies	3.60	1.91	10	4	3.60	1.91	—	—
TOTAL	35.58	49.87	100	100	18.65	22.02	16.93	27.84

Revenue System

Nova Scotia's revenues per capita are about two-thirds the Canadian average, provincial revenues being 85 per cent and municipal revenues only 60 per cent of the average. The most striking features in comparison with most other provinces are the low returns from real property taxation, and the relatively high proportion of total revenues provided by the federal subsidy. The long history of adverse economic conditions, the depletion of some of the best resources, the prevalence of small-scale subsistence industry, and the vulnerability of Nova Scotia's specialized industries are responsible for the low taxable capacity. Government efforts to raise revenues without further reducing the provincial income are particularly difficult since the normal method—progressive taxation—would not be productive on an important scale in Nova Scotia. As a second best choice Nova Scotia has turned to consumption taxation of selected commodities. Liquor and gasoline taxation make up 25 per cent of the total revenue as compared with 17 per cent in all provinces. Public domain revenues, of which the great bulk are coal royalties, are of rather special character since a large proportion of the production is made possible only through Dominion subsidies and protection. Consequently, the provincial revenues from its public domain are in a sense paid by the Dominion Government. The revenue base is thus narrow and limited. Revenues from public domain must be related to the extent to which the Dominion is prepared to subsidize the mining industry. The gasoline tax rate is limited by the desire to attract tourists from the United States, although it should be noted that a high rate in Nova Scotia is less oppressive than in a province of much greater distances such as Saskatchewan. Liquor taxation, of course, is shared with the Dominion, and provincial revenues from that source will be affected by Dominion policy. Income tax and succession duty yields must inevitably be low unless relatively high taxation is imposed on quite small incomes. The marginal nature of the economy makes general consumption taxation, including property and sales taxes, undesirable. There is evidently great temptation to turn to corporation taxes and constant pressure to demand increased federal subsidies.

TABLE 90.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.
Net Debt Charges	7.15	9.52	21	20	4.83	4.59	2.32	4.94
Public Welfare—								
Relief	1.15	5.45	3	11	0.83	3.86	0.32	1.59
Other	6.30	7.26	19	15	3.24	4.05	3.06	3.21
Education	7.78	9.78	23	20	2.37	2.89	5.41	6.89
Agriculture and Public Domain	1.06	1.86	3	4	1.06	1.86	—	—
Transportation	4.65	5.03	14	10	3.75	2.27	0.90	2.75
General Government and Miscellaneous	5.66	9.80	17	20	2.01	3.77	3.65	6.03
TOTAL	33.75	48.70	100	100	18.09	23.29	15.66	25.41
Per Capita Provincial Income, $	290	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	215	291	—	—	172	177	44	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	6	7	5	7
Percentage of Outstanding Debt to Provincial Income	74	84	—	—	59	51	15	33

Expenditures

Although the provincial government's net debt charges are at the same per capita level as in other provinces (and a higher proportion of provincial government revenues), municipal charges are only half the per capita average, making the total debt burden approximately three-quarters of the Canadian average. (In 1937 provincial income was 84 per cent of the Canadian per capita average.) Outstanding provincial debt doubled during the thirties, three-quarters of the increase being due to highway expenditures, and the balance to current deficits, including direct relief. The debt maturities are fairly evenly spaced up to 1952. Nearly half the debt is optionally payable in other than Canadian currency and is of relatively long-term and high-coupon rates. Recent borrowing at favourable rates has brought the average coupon rate below 4 per cent, but no refunding of the major portion of the high coupon debt will be possible for some time.

General government expenditures are less than 60 per cent of the national per capita average, and detailed comparisons indicate very frugal administration. On the other hand, it has been argued that a better paid civil service would make for long-run economy.

On education and public welfare (excluding relief) Nova Scotia is now spending proportionately more of total municipal-provincial revenues than other provinces, but still some 20 per cent less than the national per capita average. There has been notable improvement in these services since the granting of the Duncan and White Commissions' awards, and to some extent the lower than average level of expenditure is justified by lower costs and does not indicate inferior standards. Nevertheless some of the needs are greater—the high proportion of the population in the older age groups, the presence of some specially destitute rural areas, and the necessity of maintaining mobility of population, and of equipping emigrants with competitive techniques, all create special demands. The full importance of altered circumstances and competitive conditions was perhaps not appreciated for some time owing to the reserve accumulated from Golden Age days of an initially well-equipped and administered educational system.

The relief problem has been largely met in recent years by the provincial government's relief works and highways programs, and by the Dominion government's assistance to the coal and steel industry. The provincial government found the depression a favourable time at which to modernize its highway system with the advantages of cheap money and of using labour which would otherwise have been unemployed. It was hoped that this program would strengthen the economy by attracting tourist trade and lowering transportation charges, but it is still too early to determine whether the investment will prove self-supporting and what the employment situation will be when the program is terminated.

Transportation expenditures have absorbed a somewhat higher proportion of government revenues than average, but it is hoped that the new highway system will reduce maintenance costs. These expenditures afford a good example of the variation in provincial-municipal division of costs of various services throughout Canada. In Nova Scotia the provincial government supplies more than four-fifths of the total current expenditures on streets and roads; in the rest of Canada provincial governments supply less than half. Expenditures on public domain are small and have been kept fairly constant. Expenditures on agriculture have increased but those on forests have fallen perhaps below the minimum necessary in a region where conservation and protection are imperative.

Summary

Nova Scotia's provincial income reflects the long struggle of the region with serious economic disabilities. The relatively low and variable cash proportion of the income, and the fact that an important amount of the surplus income and wealth is drained off to Central Canada impose limitations on the tax system and at the same time create special demands for expenditures. The current effort to strengthen the economy by large scale capital expenditures has added substantial fixed charges, and the debt structure is such that there is little prospect of reduction in existing charges through normal refunding operations. Under the present system chronic pressure for increased federal subsidies and provincial services of less than average standards would appear inevitable.

New Brunswick

Table 91.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.
Real Property Taxes	10.11	22.60	31	45	0.26	0.53	9.85	22.07
Gasoline Taxes and Motor Vehicle Licences	5.72	5.84	18	12	5.72	5.84	—	—
Public Domain	2.47	1.90	8	4	2.47	1.90	—	—
Liquor Control	2.51	2.68	8	5	2.51	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	5.37	6.85	16	15	0.55	1.64	4.82	5.20
Sub-Total	26.18	39.87	81	81	11.51	12.59	14.67	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	1.18	3.06	4	6	1.18	3.06	—	—
Income Taxes on Persons	0.29	1.24	1	2	—	1.07	0.29	0.17
Succession Duties	0.90	3.22	3	6	0.90	3.22	—	—
Total Revenue from Provincial Sources	28.55	47.96	89	96	13.59	20.11	14.96	27.84
Federal Subsidies	3.56	1.91	11	4	3.56	1.91	—	—
TOTAL	32.11	49.87	100	100	17.15	22.02	14.96	27.84

Revenue System

Total provincial-municipal revenues in New Brunswick are only two-thirds the national per capita average and, excluding Prince Edward Island, are the lowest in Canada. As in the other Maritime Provinces real property taxation is much below the average (in New Brunswick less than half the per capita average) and progressive taxation yields are negligible. Reliance has consequently been placed on selected consumption taxation (gasoline and liquor), public domain revenues, and on federal subsidies. The latter make up 11 per cent of total provincial-municipal revenues in New Brunswick as compared with the national average of 4 per cent. The nature of the provincial economy and of the provincial income (which is only 70 per cent of the national average) has been previously discussed in Chapter VII and accounts for the limited base of the revenue system. Where so many of the resources are marginal and so many of the incomes at bare subsistence levels, increased taxation on costs would submerge an important portion of the economy. In such a region there is little accumulated surplus wealth or surplus income. It is not clear, however, that the Province's efforts to tax what surplus income does exist have been as vigorous as possible; the income tax has been left to municipalities and succession duty rates are on balance lower than the average. The municipal income tax (with the exception of the Saint John income surtax) is levied on a frequently arbitrary assessment at the local real property tax rate with exemptions varying according to local conditions. It has become in fact a combination of a small poll tax and a rough approximation of a property tax but even when combined with real property taxation the total yield is less than half the Canadian per capita average. It is in this deficiency that much of New Brunswick's financial difficulty may lie. Municipalities cannot carry the same share of education, welfare and highway expenditures as they do in other provinces and the provincial government lacks the financial resources and tax basis to make good the difference. Nevertheless it is scarcely necessary to add that a doubling of real property taxation in New Brunswick is impracticable and even any substantial increase would require such a wholesale adjustment of rents and wages and lead

to such an increased burden on the costs of many marginal enterprises that it would seriously damage provincial income and taxable capacity. The public domain revenues are above the average but are very dependent on the fluctuating fortunes of the lumbering industry, royalties and stumpage taxes, for example rising six-fold from 1933 to 1937. However, the relative decline in the competitive power of many of New Brunswick's natural resources limits their revenue possibilities. Corporation taxes have recently been extended and increased and the yield has been doubled, but it is evident that unless discriminatory forms of corporation taxation on extra-provincial companies are resorted to this source can never be a major revenue producer.

TABLE 92.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.
Net Debt Charges	8.80	9.52	30	20	6.33	4.59	2.47	4.94
Public Welfare—								
Relief	0.59	5.45	2	11	0.42	3.86	0.17	1.59
Other	4.42	7.26	15	15	2.32	4.05	2.10	3.21
Education	6.08	9.78	21	20	1.66	2.89	4.42	6.89
Agriculture and Public Domain	1.49	1.86	5	4	1.49	1.86	—	—
Transportation	3.67	5.03	13	10	2.62	2.27	1.05	2.75
General Government and Miscellaneous	4.13	9.80	14	20	1.49	3.77	2.64	6.03
TOTAL	29.18	48.70	100	100	16.33	23.29	12.85	25.41
Per Capita Provincial Income, $	239	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	233	291	—	—	186	177	46	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	7	7	5	7
Percentage of Outstanding Debt to Provincial Income	97	84	—	—	78	51	19	33

Expenditures

The foregoing table does not show the marked increase in net debt charges in the most recent years. But, even in 1937, in spite of municipal debt charges which were only half the Canadian average, total provincial and municipal debt charges almost equalled the national average and absorbed 30 per cent of revenue as compared with 20 per cent for all of Canada. This is the highest proportion in Canada by quite a margin. It is the heritage of public works expenditures and other governmental efforts undertaken in the past to aid and strengthen the economy but which, in the face of the serious economic disabilities under which New Brunswick laboured, failed to stimulate income and taxable capacity significantly. The rate of increase in the last two years has been alarming, and in view of the already excessive amount of deadweight debt burden, the Province's credit is now seriously threatened. Nearly one-half the provincial government's debt is optionally payable in currencies other than Canadian and four-fifths of its bonds bearing 4½ per cent and higher coupons will not mature for ten years or longer. The result is that there is little prospect of saving from refunding in the near future.

General government expenditures, particularly on the administration of justice, were cut substantially during the depression and are the lowest per capita in the Dominion. There is some danger that this economy has been purchased at the expense of efficient administration. On education and public welfare New Brunswick spends only about 60 per cent of the national per capita average. Nevertheless as a consequence of the poverty which restricts New Brunswick's revenues the need for expenditures

on the social services in general is greater than the average. New Brunswick has the highest proportion in Canada of very old and very young non-workers to its total population and has also a number of seriously depressed areas in which living standards have been reduced to very bare subsistence levels. Unemployment, as we have noted, has not recently been an important provincial problem but widespread and chronic poverty is a most serious one. Expenditures on welfare and education in relation to the needs are very low; even after adjustment for the lower costs resulting from less urbanization and lower salary scales, they are far below the Canadian average.

As in the other Maritime Provinces the self-subsistence nature of the economy reduced the necessity for extensive government relief but the most important factor in the employment situation in New Brunswick was the Government's extensive highway program. After severe curtailment of all capital expenditures in the depths of the depression a highway construction program was launched, and in recent years has been carried out on an unprecedented scale, directly contributing some 10 per cent of the total provincial income. Directly and indirectly this has met the unemployment problem for the time being, but has created fiscal problems of the first magnitude for the Government. It would seem clear that New Brunswick's program was initially a well-timed one and provided necessary and productive public works on very favourable terms, but it is also clear that the policy cannot be continued on anything approaching the same scale. It is still too early to weigh the costs and profits of the modern highway system which is being constructed and to determine whether it would be advantageous to fill in the network with secondary roads on an equally ambitious scale, but it must be recognized that substantial reduction of the Government's capital program will (unless some alternative stimulus appears) revive unemployment and relief problems.

Current expenditures on domain and transportation are somewhat larger in proportion to revenue, although somewhat less in dollars per capita, than the Canadian average. Highway maintenance expenditures have dropped and may drop further as a result of the improved roads now being constructed; public domain expenditures, however, may be too low to conserve and develop resources efficiently.

Summary

The Government's present highway program is only the most recent of a series of efforts to improve transportation facilities (which, owing in part to the large number of bridges in the "best watered country in the world," have always been costly) and encourage economic development. In the past the generally unfavourable trend of economic events has defeated these projects and has left the Province with both a costly burden of deadweight debt and inflated current expenditures. At the same time the economic difficulties of the Province have increased the need for positive action in the form of better education, research and development, and for defensive action through provision of public health and social service facilities. The low taxable capacity of the Province combined with reluctance to resort to direct taxation have made it impossible to raise sufficient revenues to finance both a positive developmental program and to provide educational, social service and public health services up to average Canadian standards. Debt charges and highway maintenance alone now take 55 per cent of provincial government expenditures as compared with the Canadian average of 30 per cent. Even substantial increases in provincial taxation would still leave New Brunswick hard pressed to carry her present burdens and forced to plead for increased federal subsidies as the chief hope for expanding those services which are at present much below the Canadian average.

Quebec

Table 93.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.
Real Property Taxes	19.28	22.60	43	45	—	0.53	19.28	22.07
Gasoline, Taxes and Motor Vehicle Licences	4.62	5 84	10	12	4.62	5.84	—	—
Public Domain	2.03	1.90	5	4	2.03	1.90	—	—
Liquor Control	2.25	2.68	5	5	2.25	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc	7.42	6.85	16	15	1.97	1.64	5.45	5.20
Sub-Total	35.60	39.87	79	81	10.87	12.59	24.73	27.27
Sales Taxes	1.41	0.57	3	1	—	0.17	1.41	0.40
Corporation Taxes	3.08	3.06	7	6	3.08	3.06	—	—
Income Taxes on Persons	0.54	1.24	1	2	—	1.07	0.54	0.17
Succession Duties	3.57	3.22	8	6	3.57	3.22	—	—
Total Revenue from Provincial Sources	44.20	47.96	98	96	17.52	20.11	26.68	27.84
Federal Subsidies	0.83	1.91	2	4	0.83	1.91	—	—
TOTAL	45.03	49.87	100	100	18.35	22.02	26.68	27.84

Revenue System

The Quebec revenue system as a whole conforms closely to the statistical average pattern, the chief differences being the exercise of income and sales tax powers by the municipalities rather than by the provincial government and the somewhat higher proportion of joint provincial-municipal revenues raised by municipalities. The most notable factor in relation to provincial income is the absence of highly developed progressive taxation. Per capita income in Quebec is somewhat less than average, but the extremes of distribution of income are far greater than average. The aggregate provincial income is made up of a small group of very high incomes and a large group of very low incomes. Nevertheless the personal income tax has been levied only municipally in the Montreal metropolitan area, and for the decade ending 1937 succession duty collections just equalled the national per capita average. To some extent this is explained by the historical fact that Quebec's finances were formerly in a uniquely strong position. Public domain revenues and liquor control profits were high and other taxation was unnecessary on the same scale as in the other provinces. But the fall in liquor profits from a peak of $12·3 million to a low of $2·4 million and of domain revenues from $7·4 million to $2·9 million during the depression completely altered the revenue picture. Provincial efforts to increase revenues were hampered, however, by the situation of the equally hard-pressed municipalities.

The municipal and real property tax situation was particularly complicated by the unique role which the Church plays in Quebec. Many functions, particularly in the field of public welfare and education, which are carried out by the local or provincial governments in other provinces are supported by the Church in Quebec. Although the personnel engaged on these services serve for merely nominal pay, there are substantial and unavoidable overhead costs which in the last analysis must be borne by the same incomes that support provincial and municipal taxation. As a result the Quebec taxpayer contributes more for services which in other provinces are largely supplied by the state than is evident from public finance statistics. These costs affect real estate in particular, both directly and through

the exemption from taxation of the major portion of religious property. In part as a result of this situation some municipalities have turned to income and sales taxes, and to a number of licences and fees which are in effect corporation taxes in some cases, and this development has in turn restricted provincial freedom of action. Nevertheless the provincial government, in its search for additional revenues, has sharply increased corporation taxes.

The federal subsidy in the Quebec revenue system plays a relatively insignificant role, providing less than 2 per cent of provincial-municipal revenues. It is also worth noting the provincial subsidies to municipalities are only one-fifth those in Ontario.[16]

TABLE 94.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.
Net Debt Charges	9.44	9.52	20	20	2.19	4.59	7.25	4.94
Public Welfare—								
Relief	6.65	5.45	14	11	4.15	3.86	2.50	1.59
Other[a]	5.56	7.26	12	15	3.37	4.05	2.19	3.21
Education[a]	7.24	9.78	15	20	1.97	2.89	5.27	6.89
Agriculture and Public Domain	3.49	1.86	7	4	3.49	1.86	—	—
Transportation	4 87	5.03	10	10	2.37	2.27	2.50	2.75
General Government and Miscellaneous	10.10	9.80	22	20	3.98	3.77	6.12	6.03
TOTAL	47.35	48.70	100	100	21.52	23.29	25.83	25.41
Per Capita Provincial Income, $	299	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	242	291	—	—	91	177	151	115
Percentage of Current Expenditure to Provincial Income	16	14	—	—	7	7	9	7
Percentage of Outstanding Debt to Provincial Income	81	84	—	—	30	51	51	33

[a] See discussion in the text of qualifications necessary in comparing reported expenditures on these services in Quebec with expenditures in other provinces.

Expenditures

The net debt charges of the provincial government were still only half the national per capita average in 1937, but municipal debt charges brought the total to the average. The debt charges of religious institutions performing public services are unknown. Provincial net debt charges rose from the extraordinary low figure of 5 per cent of provincial revenue in 1930 (Canadian average then 17 per cent) to 12 per cent in 1937. Municipal debt charges, which have consistently been above the Canadian average as a percentage of revenue, increased further to 27 per cent of municipal revenues. With municipal debt charges per capita some 50 per cent above the Canadian average the rapid increase in provincial debt charges in recent years has been particularly serious. Provincial debt approximately tripled between 1929 and 1937. A little more than one-third of the increase was represented by tangible assets (chiefly highways) and the balance by relief, poor loans, and current deficits. The previous high credit standing of the provincial government permitted borrowing on favourable terms and, owing in part to this and in part to resort to shorter term securities, the average coupon rate on outstanding bonds was reduced from 4¼ per cent in 1929 to 3¼ per cent in 1937. Virtually all the borrowing during this period was in Canadian currency. However, the relatively large amount of short-term securities outstanding leaves Quebec in a potentially vulnerable position if the Province's credit rating should weaken or if interest rates should rise. Municipal debts rose by one-third during the same period while in all other provinces they declined or rose only slightly. The greatest

[16] Book III, Table 61.

proportion of increase was in the Montreal metropolitan area but "other urban" and "rural" municipalities also showed important increases. Some advantage has been gained from refunding at lower interest rates but the deadweight burden is still increasing as municipal budgets as a whole are not yet balanced.

General government expenditures are slightly more, both per capita and in proportion to total expenditures, for both provincial and municipal governments than in the rest of Canada and have been consistently so in the past. Education and public welfare (excluding relief) expenditures are lower than the Canadian average, partly because of the previously mentioned contribution of the Church. These have also been restricted by the growing pressure of deadweight debt charges and relief on municipal budgets. There are many special problems in connection with these services in Quebec which reduce the value of a statistical approach or comparison and make it impossible to assess relative standards. The Church has not only traditionally assumed a direct responsibility for education and public welfare to an important extent, but it has also thrown the full weight of its influence behind the enforcement of family responsibility for provision of these services with important effects on the residual burden on governments. Thus comparisons with expenditures in other provinces must take account of the large contribution made by the Church, and of the greater than average contribution made by the recipients themselves and their relatives, but no precise monetary estimate of this contribution is possible.[17]

The particularly acute relief situation in Quebec has been discussed in Chapters VI and VII. The problem centred largely on the huge pool of unemployed, mostly of unskilled labour, which gathered in the Montreal metropolitan area. Direct relief payments on a very large scale in Montreal, back-to-the-land resettlement and colonization programs and sporadic public works projects piled up provincial-municipal deficits at the rate of about $20 million a year on current account, and were responsible for slightly more than one-half the $310 million increase in provincial-municipal debt from 1929 to 1937 (most of the balance was incurred for highways).

Public domain and development expenditures in Quebec are much higher than average as might be expected in a province with the extensive natural resources and the regional economic problems of Quebec.[18] These problems are serious, and adequate conservation, development, and research are essential if the Quebec economy is to achieve a stable balance and income.

Highway maintenance expenditures in Quebec have in the past been above the average, and have to some extent been a corollary of low capital expenditures. It is expected that the recent large investment in improved highways will be reflected in lower maintenance charges but it is doubtful whether Quebec received the same value from its expenditures on highway projects launched as relief works as did the Maritimes, for example, since the projects do not appear to have been as well planned and economically executed.

Summary

The financial position of Quebec, long considered the fiscal Gibraltar of the Canadian provinces, deteriorated alarmingly during the depression. The very strong financial position of the provincial government at the beginning of the depression, purchased in part at the expense of the municipalities and institutions, long tended to conceal the real position and the full importance of the change in circumstances. Quebec, faced with the collapse of the very large sector of its economy which was dependent on world trade and with widespread distress in both depressed urban and rural areas, was forced to make large-scale expenditures for relief and to launch positive and constructive remedial policies at a time when a number of its chief revenues were dwindling rapidly.

Municipal and institutional finances were also under severe pressure and those units were incapable of assuming any greater burdens. The provincial revenue system proved to be a fair weather one only, yet efforts to broaden its base were hampered by the plight of the municipalities. Delay in facing the need for a complete overhaul of both provincial and municipal revenue systems in the light of the radical changes in economic circumstances which had occurred was responsible for piling up a heavy burden of deadweight debt. Quebec would appear still to have some latent reserves of credit and taxation but will require a fairly drastic reorganization of the provincial and municipal division of revenues and responsibilities, and a substantial broadening of the joint provincial-municipal tax basis to provide for the new level of expenditures and debt.

[17] Appendix 5, Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec*, pp. 47-49.

[18] See Chapter VII.

Ontario

Table 95.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.
Real Property Taxes	29.10	22.60	51	45	0.06	0.53	29.04	22.07
Gasoline Taxes and Motor Vehicle Licences	7.12	5.84	12	12	7.12	5.84	—	—
Public Domain	1.44	1.90	2	4	1.44	1.90	—	—
Liquor Control	2.82	2.68	5	5	2.82	2 68	—	—
Miscellaneous Taxes, Licences, Fees, etc	6.18	6.85	11	15	1.50	1.64	4.68	5.20
Sub-Total	46.66	39.87	81	81	12.94	12.59	33.72	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.80	3.06	5	6	2.80	3.06	—	—
Income Taxes on Persons	1.63	1.24	3	2	1.63	1.07	—	0.17
Succession Duties	5.45	3.22	10	6	5.45	3.22	—	—
Total Revenue from Provincial Sources	56.54	47.96	99	96	22.82	20.11	33.72	27.84
Federal Subsidies	0.79	1.91	1	4	0.79	1.91	—	—
TOTAL	57.33	49.87	100	100	23.61	22.02	33.72	27.84

Revenue System

The outstanding feature of the Ontario revenue system is the high yield, both proportionately and absolutely, of real property taxation. This particular source has long been the backbone of Ontario public finance as might be expected from the highly urbanized character of the economy. It is chiefly through real property taxation that Ontario governments have taken advantage of the wealth and income which natural advantages and national policies concentrate in Ontario. In addition, Ontario has been in a particularly favoured position to develop income taxes and succession duties to tap the same taxable surpluses. In the decade ending 1937 Ontario collected $100 million of total succession duty collections of $180 million in Canada. In 1937 succession duties and income taxes amounted to $7 per capita, or nearly one-half the total revenue of the provincial government in Quebec, for example.

The other taxes are normally lower in rate but yield as much per capita as in the rest of Canada. Corporation taxes actually yield less per capita, in spite of the overwhelming concentration of corporations in Ontario, the generally strong financial position of the provincial government having allowed it in the past to avoid carrying this particularly undesirable type of taxation to the extremes found necessary by most of the other provinces. The closely related public domain revenues are also less than average, the important mining industry yielding less than one-half a million a year in royalties and licences. This is particularly notable in view of the wasting character of that industry's assets, its high current rate of profits, the large public expenditures which were made to facilitate mining development, and the large public expenditures which will have to be made when the mines are exhausted. Ontario has already seen the virtual extinction of former flourishing industries based on natural resources, such as Ottawa Valley lumbering and Cobalt silver mining, and adequate conservation measures where these resources can be economically maintained, or financial preparation for necessary future adjustments where the resources are exhaustible would seem desirable.

The high level of property taxation has put Ontario municipalities on the whole in a comfortable financial position. In addition, the relatively

high yield of provincial taxation has enabled the provincial government to assist the municipalities. This position is in essence, of course, simply a reflection of the much higher average per capita income enjoyed in Ontario—in 1937, 43 per cent above the rest of Canada. But if national policies stimulate Ontario's income, national taxation takes a substantial amount of the cream, and Ontario's taxation to a greater extent than in other provinces is affected by federal tax policy. In the field of progressive taxation, in particular, Ontario's action is restricted and future development will be largely determined by federal policy. In return, federal subsidies are relatively negligible—in 1937 they provided less than 1½ per cent of provincial-municipal revenues.

TABLE 96.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.
Net Debt Charges	9.46	9.52	18	20	4.99	4.59	4.47	4.94
Public Welfare—								
Relief	4.15	5.45	8	11	2.75	3.86	1.40	1.59
Other	8.63	7.26	17	15	4.55	4.05	4.08	3.21
Education	12.01	9.78	23	20	3.19	2.89	8.82	6.89
Agriculture and Public Domain	0.98	1.86	2	4	0.98	1.86	—	—
Transportation	5.76	5.03	11	10	2.11	2.27	3.65	2.75
General Government and Miscellaneous	10.69	9.80	21	20	4.00	3.77	6.69	6.03
TOTAL	51.68	48.70	100	100	22.57	23.29	29.11	25.41
Per Capita Provincial Income $	430	345	—	—	—	—	—	—
Per Capita Outstanding Debts $	338	291	—	—	218	177	121	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	5	7	7	7
Percentage of Outstanding Debts to Provincial Income	79	84	—	—	51	51	28	33

Expenditures

Nearly one-half the debt of the Ontario Provincial Government, largely that portion represented by the Ontario Hydro-Electric Power Commission, is directly self-supporting, and while gross interest payments in 1937 were $33·2 million, net interest charges were only $18·5 million. Total net debt charges of provincial and municipal governments are almost exactly the Canadian per capita average and have increased somewhat less than the average during the thirties, although the provincial government's net debt charges alone have approximately doubled. Municipal charges have actually decreased and consequently aggregate provincial-municipal charges increased only from $30 million in 1930 to $35 million in 1937. The coupon rate on the provincial government's debt is relatively high (4·3 per cent in 1937) as a result of heavy borrowings at the high rates prevailing in the early twenties and again in the early thirties. However, $100 million of the 4½ per cent and higher coupon rate debt matures in 1942 and 1943, and nearly two-thirds of this debt matures by 1950. Maturities are fairly evenly spread, as a result in part of a number of serial issues which make up 30 per cent of the outstanding debt, but sinking fund provisions for the balance of the debt are relatively small. Slightly more than one-half the debt is now payable only in Canadian currency—in 1931 less then one-third was in this position. Municipal debt which in 1930 was nearly 50 per cent more than that of Quebec was less in 1937, and was being reduced at a rate of approximately 3 per cent per annum. The reduction is particularly striking in the case of highway debt incurred in the middle twenties and repaid in a relatively short term by serial retirements.

Education and public welfare expenditures reflect the high level of real property taxation which has been established in Ontario, and also the greater than average financial assistance which the provincial government has given municipalities. Municipal expenditures on these services are some 28 per cent above the national average and provincial-municipal expenditures together 21 per cent higher. Nevertheless, Ontario has lost some of the outstanding lead enjoyed in these services in the twenties.

Relief expenditures in Ontario, particularly in the industrial centres which depended on the purchasing power of the rest of the country, reached $60 million in 1934 but dropped relatively quickly to less than one-half that amount by 1937. In addition to the measure of general recovery experienced in that year, the unemployment situation in Ontario was greatly alleviated by the spectacular expansion of the mining industry, which both directly furnished employment in the mines and stimulated supply and construction industries and incomes generally throughout the Province.

The expanding frontier provided a useful outlet for both provincial and municipal public works. Experience has shown how costly is a policy of attempting to meet unemployment by provision of unnecessary public works. Generally speaking, provincial and municipal governments had made what were considered to be adequate capital provision for the times during the twenties. When the depression struck, these facilities were in many cases found to be more than adequate and drastic retrenchment became the rule. Municipalities on whom the burden of unemployment first fell were thus led to undertake unnecessary projects and manufacture "boondoggling" jobs. Even at the peak this policy provided for only a small proportion of the total number on relief [19] and the cost and resulting deadweight debt burden proved out of all proportion to the cost of the alternative method of direct relief. This was partly because the municipality was a most inappropriate unit to plan and time suitable public works, and its credit base was too restricted to permit the necessary amount of deficit financing. The same considerations applied, although to a lesser extent, when provinces stepped in and adopted similar policies after municipalities had come to an end of their resources. In brief, in the absence of any long range and comprehensive planning of public works and administration by the Federal Government, which alone could pursue appropriate monetary policies to finance them, relief works programs by provincial and municipal governments were desirable only where some real need existed for new public works. We have already noted that the need for modern highways in the Maritimes provided an opportunity for a large-scale and basically sound public works policy. The mining development in Northern Ontario likewise created a need for both provincial and municipal works (roads, schools, etc.) and for this reason Ontario was able to resort to a public works policy more advantageously than other provinces.

On agriculture and public domain Ontario has found it necessary to make relatively small net expenditures, although the contribution of the Hydro-Electric Power Commission of Ontario, the Temiskaming and Northern Ontario Railway, and the Ontario Farm Loans Board to the development of the Province's resources should not be overlooked. It has already been noted that Ontario may not, however, be making adequate provision for the conservation and most economic exploitation of its natural resources, or for the situation which will develop when some of these resources are exhausted. The transportation expenditures of Ontario governments reflect the stronger than average financial position of the municipalities and the earlier assumption by the provincial government of responsibility for planning and carrying out a comprehensive and suitable highway policy.

Summary

Any discussion of public finance in Ontario must be in the light of the superior position Ontario holds in the national economy. In the field of public finance this has been taken advantage of largely through heavy real property taxation. As a result Ontario municipalities as a whole, and services jointly shared by municipalities (education, public welfare and roads), are in a more comfortable financial position than in the rest of Canada. (There are, of course, important exceptions such as one-industry towns and some metropolitan suburbs.) This superior financial position, however, has been purchased at the expense of a frequently inequitable burden on one class of wealth. Because Ontario possesses such a large proportion of the taxable income of the Canadian economy, federal taxation policy is a factor of major importance in the Province's financial outlook. In the past a sufficient field has been left to provincial tax authorities to enable them, with relatively moderate taxation, to establish a level of governmental services above the average. However, intensive federal direct taxation, added to the already high level of property taxation, would severely pinch the provincial government.

[19] Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance*, p. 12.

TABLE 97.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.
Real Property Taxes	23.71	22.60	48	45	1.03	0.53	22.68	22.07
Gasoline Taxes and Motor Vehicle Licences	5.08	5.84	10	12	5.08	5.84	—	—
Public Domain	0.84	1.90	2	4	0.84	1.90	—	—
Liquor Control	2.44	2.68	5	5	2.44	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	6.73	6.85	14	15	1.48	1.64	5.25	5.20
Sub-Total	38.80	39.87	79	81	10.87	12.59	27.93	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.58	3.06	5	6	2.58	3.06	—	—
Income Taxes on Persons	3.89	1.24	8	2	3.89	1.07	—	0.17
Succession Duties	0.56	3.22	1	6	0.56	3.22	—	—
Total Revenue from Provincial Sources	45.83	47.96	93	96	17.90	20.11	27.93	27.84
Federal Subsidies	3.42	1.91	7	4	3.42	1.91	—	—
TOTAL	49.25	49.87	100	100	21.32	22.02	27.93	27.84

Revenue System

An important factor in the provincial-municipal revenue system of Manitoba is the substantial yield of real property taxation, particularly in Winnipeg. Another factor of particular interest in comparison with other provinces is the emphasis on direct taxation. The provincial income tax, which was long the heaviest in North America on low salary brackets, and provincial succession duties raised nearly one-fifth of total provincial revenues in 1937. This seems a high figure for an agricultural economy, but it is due in some degree to a greater economic diversity than is perhaps generally appreciated, and to the accumulation in the City of Winnipeg of a relatively large proportion of the surplus and taxable income of the Prairies. In addition, the provincial government took prompt and effective action to maintain revenues, and from their low point in 1931 provincial government revenues had recovered to the 1929 peak by 1933—the year in which aggregate provincial revenues touched their depression low and were some 20 per cent less than in 1929. In addition a special federal subsidy of nearly one-half again as much as the regular subsidy aided the provincial government in 1937. The revenue system of Manitoba has come through a period of abnormal strain as one of the soundest and most progressive in Canada.

TABLE 98.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.
Net Debt Charges	10.39	9.52	21	20	5.16	4.59	5.23	4.94
Public Welfare—								
Relief	6.96	5.45	14	11	4.10	3.86	2.86	1.59
Other	7.47	7.26	15	15	4.45	4.05	3.01	3.21
Education	9.63	9.78	20	20	2.33	2.89	7.30	6.89
Agriculture and Public Domain	1.02	1.86	2	4	1.02	1.86	—	—
Transportation	4.04	5.03	8	10	1.25	2.27	2.79	2.75
General Government and Miscellaneous	9.24	9.80	20	20	2.69	3.77	6.56	6.03
TOTAL	48.75	48.70	100	100	21.00	23.29	27.75	25.41
Per Capita Provincial Income, $	361	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	292	291	—	—	171	177	122	115
Percentage of Current Expenditure to Provincial Income	14	14	—	—	6	7	8	7
Percentage of Outstanding Debt to Provincial Income	81	84	—	—	47	51	34	33

Expenditures

Net debt charges (of provincial and municipal governments) roughly doubled in the early thirties, but in recent years have shown no increase. The provincial government's debt increase (1929-1937—$21 million) was almost entirely due to relief costs, and all capital expenditures were drastically curtailed. Although Manitoba's credit weakness prevented the government from making any economies through debt refunding, the new borrowing was done from the Dominion on 3 per cent Treasury Bills. Virtually all the outstanding 6 per cent bonds mature by 1947, but the major proportion of the $4\frac{1}{2}$, 5 and $5\frac{1}{2}$ per cent bonds do not mature until the fifties, and two-thirds of the debt is optionally payable in currencies other than Canadian currency. The interest charges are consequently rigid and vulnerable to exchange movements. The outstanding municipal debt, in spite of the pressure of relief costs on Winnipeg and of the drought in the southwestern corner of the Province, was reduced nearly 10 per cent from 1930 to 1937, owing largely to repayment of debt incurred for highway and public utilities.

Provincial and municipal expenditures on education and welfare (excluding relief) were reduced approximately 10 per cent from 1930 to 1937 although aggregate expenditures of all provinces and municipalities rose 5 per cent during this period. At the present figure Manitoba's expenditures on these services are almost exactly the Canadian per capita average, although there are some factors which would tend under normal circumstances to make them above the average. For example, in Manitoba, as in the other western provinces, there is a lack of privately endowed universities, hospitals, and other communal facilities which imposes a heavier burden on public funds than in the eastern provinces.

The major relief problem has been in the metropolitan area of Winnipeg, although drought relief was necessary in the southwestern municipalities, and the chronic distress of the interlake region grew worse. Winnipeg (and its suburbs) inevitably suffered heavily from its great dependence on the Prairie wheat industry, and in addition became the natural rallying point for the large body of floating labour which is such an essential element in the Prairie economy. Crop failures and the cessation of virtually all construction activities left this group destitute and added to the already serious unemployment problem of the Winnipeg area. A larger than average share of relief costs was left to municipalities (1930-1937—27 per cent as compared with

the national average of 18 per cent) partly because Winnipeg's own financial position at the beginning of the depression was very strong. Several of its dormitory suburbs, however, entered the depression in a weak condition and, as their taxable capacity diminished almost as rapidly as relief costs grew, they were quickly forced into bankruptcy. The experience was both an indictment of the policy of leaving the costs of climatic and international trade disasters to small and arbitrarily segregated units, and of the obsolete form of municipal organization of metropolitan areas. The very good crops in recent years, combined with more than average severity of taxation and retrenchment of expenditure, permitted the provincial government and most of the municipalities to finance their shares of relief costs but at the expense of creating a sense of unjust and illogical treatment.

Expenditures on general government, public domain, and highway maintenance all reflect the severe policy of retrenchment pursued by the Manitoba Government. In some cases essential maintenance expenditures have been deferred to an extent which will prove costly in the long run. In the field of development there would appear to be room for some productive expansion of expenditure.

Summary

The financial position of Manitoba Governments reflects a picture of a very hard hit economy. The governments, however, rigorously reduced expenditures, discovered some unsuspected reserves of strength, and promptly chose a direct and efficient, although not particularly popular, method of maintaining revenues. These measures, with Dominion assistance, sufficed to weather the worst of the storm and Manitoba has recently been favoured with exceptionally good crops. Manitoba remains handicapped, however, by a rigid public debt structure and by a chronic metropolitan unemployment problem which affects the suburban municipalities in particular. Continuation of the present conditions threatens the credit and financial stability of both provincial and local governments.

Saskatchewan

Table 99.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.
Real Property Taxes	17.55	22.60	43	45	1.03	0.53	16.52	22.07
Gasoline Taxes and Motor Vehicle Licences	3.81	5.84	10	12	3.81	5.84	—	—
Public Domain	0.85	1.90	2	4	0.85	1.90	—	—
Liquor Control	1.35	2.68	3	5	1.35	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc	7.75	6.85	19	15	1.87	1.64	5.88	5.20
Sub-Total	31.31	39.87	77	81	8.91	12.59	22.40	27.27
Sales Taxes	1.38	0.57	3	1	1.38	0.17	—	0.40
Corporation Taxes	1.30	3.06	3	6	1.30	3.06	—	—
Income Taxes on Persons	0.38	1.24	1	2	0.38	1.07	—	0.17
Succession Duties	0.26	3.22	1	6	0.26	3.22	—	—
Total Revenue from Provincial Sources	34.63	47.96	85	96	12.23	20.11	22.40	27.84
Federal Subsidies	5.98	1.91	15	4	5.98	1.91	—	—
TOTAL	40.61	49.87	100	100	18.21	22.02	22.40	27.84

Revenue System

The Saskatchewan débâcle is so well known that it is unnecessary to labour the point that statistical comparisons between Saskatchewan and other provinces for recent years are unrealistic. The per capita income of Saskatchewan, which for years exceeded the national average, was in 1937 only two-thirds of that average and, with the exception of Prince Edward Island, much the lowest in Canada. The revenue structure in Saskatchewan has been influenced by the nature of the economy and by the fact that during the period of expansion a few relatively simple tax measures yielded sufficient revenues to finance governments which were in general most economically administered. Our comparison shows that real property taxation in Saskatchewan was about three-quarters of the national per capita average in 1937, but this comparison is based on tax levies rather than on cash collections, and in 1937 only one-third of the municipal levy was collected. The other tax sources also tend to yield much less than the national average. Gasoline tax returns, for example, are reduced by exemptions for farm use; public domain revenues are low because of the limited range of resources and their unfavourable economic position at present; liquor profits are low because of the lack of purchasing power under present conditions; progressive taxation (income taxes and succession duties), in spite of high rates, yields relatively negligible returns, and the same circumstances—the lack of any individual or corporate concentration of wealth in Saskatchewan—restrict corporation tax yields similarly. The sales tax is an effort to broaden the base of taxation. It is more appropriate in an economy such as that of Saskatchewan's than it would be in other provinces, and has been productive in circumstances in which few other taxes could have been, but it cannot be looked on as a desirable permanent feature or precedent.

The marvel is not that Saskatchewan's revenues fell, but that they did not fall more. Provincial revenues, in fact, rose slightly between 1930 and 1937, and municipal revenues, on an accrual basis, fell only one-quarter. In 1937, 15 per cent of total provincial-municipal revenues was provided by the federal subsidy (including the special temporary grant). The special subsidy, the Dominion loans to the Province (and the subsequent write-offs), and the Dominion assumption of relief responsibility in the drought area form the leading example of the arbitrary financial transfers necessary on occasion, under the present division of powers and responsibilities, to maintain the framework of government.

TABLE 100.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.
Net Debt Charges	9.37	9.52	19	20	6.48	4.59	2.90	4.94
Public Welfare—								
Relief	11.44	5.45	23	11	10.91	3.86	0.53	1.59
Other	7.18	7.26	14	15	3.85	4.05	3.34	3.21
Education	8.72	9.78	18	20	3.36	2.89	5.36	6.89
Agriculture and Public Domain	1.35	1.86	3	4	1.35	1.86	—	—
Transportation	3.04	5.03	6	10	1.39	2.27	1.65	2.75
General Government and Miscellaneous	8.41	9.80	17	20	3.24	3.77	5.15	6.03
TOTAL	49.51	48.70	100	100	30.58	23.29	18.93	25.41
Per Capita Provincial Income, $	208	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	291	291	—	—	230	177	62	115
Percentage of Current Expenditure to Provincial Income	24	14	—	—	15	7	9	7
Percentage of Outstanding Debt to Provincial Income	141	84	—	—	111	51	30	33

Expenditures

The provincial government's debt interest charges (gross and net) tripled between 1930 and 1937, but an actual reduction in municipal debt charges has restricted the increase of aggregate provincial-municipal debt service during this period to little more than $3 million ($5·6 million to $8·8 million). Even at the present figure the joint provincial-municipal debt (which is almost exactly the national per capita average) is not alarming, except in relation to the abnormally low provincial income of recent years. Any reduction through normal refunding processes of the interest rate on Saskatchewan's outstanding funded debt was not, of course, possible in the circumstances of the thirties, but the great bulk of the new debt consisted of Treasury Bills sold to the Dominion at artificially favourable rates, and interest on these has been paid by further Treasury Bill issues. Borrowing from the Dominion for relief purposes up to 1937 was greater than the total provincial debt in 1929. Slightly more than one-half the provincial funded debt is in optional payment securities and two-thirds of the 4½ per cent and higher coupon bonds do not mature until the 1950's or later, thus introducing certain uncontrollable and rigid factors. But the special write-offs which the Dominion has already made on certain of its loans to Saskatchewan, the capitalization of interest due to the Dominion, and the assumption by the Dominion of the total costs of relief in the drought area all indicate that Saskatchewan's debt is considered as being in a special category, and can scarcely be appraised by conventional criteria. Although the financial position of Saskatchewan municipalities is desperate it is not revealed in their debt position because borrowings were held down to very moderate amounts during the twenties, and their credit was such that they simply could not borrow during the thirties.

Expenditures on education and public welfare (excluding relief) were cut between 1930 and 1937 by one-quarter. Education was particularly hard hit—joint provincial-municipal expenditures on education were reduced 40 per cent and rural municipal expenditures were cut by two-thirds. In the long run, when the personnel affected can find alternative employment, these reductions must produce serious deterioration in standards, and, as we have observed elsewhere, this concerns not only Saskatchewan but the whole country. The reduction in public welfare expenditures at a time when needs were increasing on a gigantic scale is the cold statistical reflection of a tremendous amount of human misery. It is not a surprising, although a tragic, commentary that the pressure on mental institutions became particularly acute and beds are lacking for one-third of the serious cases. It is true that expenditures on a per capita basis are not materially below the Canadian average, but in relation to the needs (and in relation to the previous standards which were maintained) they are pitifully inadequate.

Relief expenditures in Saskatchewan reached fantastic levels. In 1937, when two-thirds of the population were on relief, relief expenditures by all governments in Saskatchewan were double total provincial and municipal revenues, excluding subsidies. A great proportion of the burden was for agricultural aid, and the necessity of supplying the operating costs for the major industry, rather than merely subsistence for individuals, involved huge amounts of money. There is ground for serious criticism of the methods adopted. Although the Dominion had to supply the bulk of the funds, the loans to farmers were made through provincial and municipal agencies, and the unpopular task of collecting the loans to reimburse the Dominion was also in their hands; there is some reason for believing that they engaged in the former function with far more enthusiasm than in the latter. Of much greater importance than the inevitable financial losses in such a system was the penalty imposed on individual honesty and self-reliance. From the point of view of Dominion-provincial relations and the smooth working of the federal system the creation of a huge amount of inter-governmental debt, and the financial dependence of Saskatchewan on the Dominion were threatening. In addition to the necessity for agricultural aid in the drought area, which it could be hoped was a temporary phenomenon, it became evident that in some areas of submarginal land a large proportion of the population would have to be moved. The provincial government of course has not had the funds, either to attempt to rehabilitate the depressed areas or to transfer people to undeveloped northern lands and equip and support them on the necessary scale.

Expenditures on general government, agriculture, public domain and highways all reflect drastic retrenchment. Highway maintenance expenditures were cut most severely—from 1930 to 1937 by 45 per cent. These cuts fell on a province which had never, except for a brief period in the early thirties, been a lavish spender, and they have consequently reduced expenditures in many cases below the desirable minimum level. The long-run costs of deferred maintenance threaten to be very great.

Summary

Saskatchewan presents the outstanding example of the unsuitability of the existing public finance system in emergencies,—but it must be admitted that almost any system would have broken down in the circumstances. However, when we consider the unfavourable economic prospects for Saskatchewan's major industry and the need for very large rehabilitation expenditures, it seems evident that Saskatchewan will not, under the present system, be able to assist the recovery of its economy or to provide its population with services on a desirable scale. Although incomes are high in good years, they are not in easily taxable form, and there are no urban centres or corporate organizations of importance in Saskatchewan where surplus income accumulates and can be reached by provincial taxation. The rest of the country came to Saskatchewan's assistance on a very large scale in the emergency of the drought disaster, but there is serious danger that Saskatchewan will be left to its own inadequate resources to face the major long-run problems of readjustment and recovery.

Alberta

Table 101.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.
Real Property Taxes	22.35	22.60	45	45	1.52	0.53	20.83	22.07
Gasoline Taxes and Motor Vehicle Licences	5.63	5.84	11	12	5.63	5.84	—	—
Public Domain	2.17	1.90	4	4	2.17	1.90	—	—
Liquor Control	3.33	2.68	7	5	3.33	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	8.03	6.85	16	15	3.28	1.64	4.75	5.20
Sub-Total	41.51	39.87	83	81	15.93	12.59	25.58	27.27
Sales Taxes	0.77	0.57	2	1	0.77	0.17	—	0.40
Corporation Taxes	2.74	3.06	5	6	2.74	3.06	—	—
Income Taxes on Persons	0.85	1.24	2	2	0.85	1.07	—	0.17
Succession Duties	1.70	3.22	3	6	1.70	3.22	—	—
Total Revenue from Provincial Sources	47.57	47.96	95	96	21.99	20.11	25.58	27.84
Federal Subsidies	2.28	1.91	5	4	2.28	1.91	—	—
TOTAL	49.85	49.87	100	100	24.27	22.02	25.58	27.84

Revenue System

The distinctive features of the Alberta revenue system include the survival of provincial real property taxation (as in Saskatchewan) and of some features of it which still show the influence of single tax theories. Progressive taxation, in spite of high rates (and in spite of an abnormally high succession duty payment in 1937), yields less than average. Corporation taxes have recently been sharply increased—a step influenced by more than simply revenue considerations. There was also a short-lived experiment with a provincial retail sales tax in 1936 and 1937. The new Turner Valley oil field has been chiefly responsible for a rapid expansion in public domain revenues. Provincial revenues (excluding subsidies) dropped 23 per cent from 1929 to 1931, but since then have risen impressively and by 1937 were one-third above the 1929 peak, although provincial income was 30 per cent lower. Virtually all forms of provincial revenue show increases since 1929 with the exception of real property taxation. But, even the returns of this tax, both provincially and muni-

cipally, did not decline as much as might have been expected and total provincial-municipal revenues in 1937 were 7 per cent higher than in 1930. The fall in land values, however, has made the prevailing rates of property taxation extremely burdensome.

TABLE 102.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.
Net Debt Charges	7.55	9.52	17	20	[a]4.58	4.59	2.97	4.94
Public Welfare—								
Relief	3.76	5.45	8	11	2.48	3.86	1.28	1.59
Other	7.11	7.26	16	15	3.82	4.05	3.28	3.21
Education	12.14	9.78	27	20	3.39	2.89	8.75	6.89
Agriculture and Public Domain	1.14	1.86	3	4	1.14	1.86	—	—
Transportation	5.35	5.03	12	10	1.72	2.27	3.63	2.75
General Government and Miscellaneous	7.66	9.80	17	20	3.00	3.77	4.67	6.03
TOTAL	44.71	48.70	100	100	[a]20.13	23.29	24.58	25.41
Per Capita Provincial Income, $	312	345	—	—	—	—	—	—
Per Capita Outstanding Debt,[a] $	284	291	—	—	218	177	66	115
Percentage of Current Expenditure to Provincial Income[a]	14	14	—	—	6	7	8	7
Percentage of Outstanding Debt to Provincial Income[a]	91	84	—	—	70	51	21	33

[a]Excludes unpaid interest.

Expenditures

National interest has been centred on Alberta's arbitrary reduction of debt charges. These have consistently been the highest of any province in Canada and it is perhaps not surprising that they were singled out for attack. Provincial net debt charges in 1930 were $4·3 million annually, and in 1937 at full interest rates would have been (after adjustment for interest received) $5·4 million; actually they were $3·6 million. Only 22 per cent of the provincial funded debt is payable in Canadian currency only, and more than one-half the debt bearing 4½ per cent coupon rates or higher does not mature until after 1950. It is consequently evident that the provincial debt at its original coupon rates was in a technically rigid and vulnerable position, and only small reductions in carrying charges would have been possible through orderly refunding. Municipal debt is substantially below the Canadian average and per capita municipal debt charges in 1937 were only one-half the average. This is in part due to reorganization of the Calgary and Edmonton debts. The outstanding debt of rural municipalities is negligible. Roughly speaking, the savings from the interest cut have been used to pay for relief, thus holding debt increases on this account below the average. In addition, capital expenditures have been held down to moderate levels, resulting in the lowest over-all debt increase for combined provincial and municipal governments during the depression in any province except Manitoba.

Expenditures on welfare (excluding relief) and education are still 13 per cent above the national per capita average, although they have declined 3 per cent as compared with a nation-wide increase of 5 per cent between 1930 and 1937. Expenditures by the provincial government on these services have been increased, offsetting part of the enforced reduction in municipal expenditures on education. Certain factors, such as the cost of living and the scattered nature of settlement, tend to make the costs of these services higher than average in order to provide equal standards. In addition, Alberta has experimented more freely than most other provinces with advanced forms of public welfare

and educational services. In this, as in the provision of community equipment, Alberta has consistently shown an inclination, characteristic of newly opened and rapidly developing economies, to use community effort and credit to accelerate development and provide the amenities of life. This policy inevitably involves, of course, a higher level of governmental overhead, but may in return provide a higher real provincial income.

Agricultural relief has been a serious problem in Alberta, although owing to materially better crops and greater diversification than in Saskatchewan not on the same tremendous scale as in that Province. Distress was caused by the combination of ruinously low prices and what are probably the highest fixed charges (in the form of agricultural indebtedness, railway freight rates, irrigation investments and government indebtedness) in Canada rather than by climatic disaster. The provincial government, which supplied the bulk of the funds necessary for agricultural relief, collected a much higher proportion of its advances than did Saskatchewan, where Dominion funds were re-loaned, in part because of the better crops in Alberta and the reduction in private debt charges. In Edmonton and Calgary, Alberta has a problem somewhat similar to that of Winnipeg's, although on a much smaller scale, as the unemployed floating labour of the Western Provinces tend to congregate there. The Turner Valley oil development and the mining activity in the Northwest Territories alleviated the problem in Calgary and Edmonton, but only to a limited extent. Advances to these cities of more than $2\frac{1}{2}$ million were made by the provincial government but nevertheless the burden proved excessive, and they were forced to reduce their debt charges. The Government's arbitrary reduction of interest rates has had important and probably unexpected reactions on the method of financing relief. In 1937 (i.e. fiscal year 1937-38), which was the first period in which the full effect of the halving of interest rates on government bonds was reflected in the budget and the latest period for which complete statistics on relief expenditures are available, the Province and municipalities spent some $4 million on relief from their own funds. The provincial government reduced interest payments by $3·4 million. In brief, relief was financed by a forced levy on bondholders rather than, as in other Western Provinces, by advances from the Dominion; from an immediate cash point of view the beneficiary of the Alberta action was the Dominion government which was relieved of the necessity of making further loans to the province, although it was the provincial government which bore the stigma of default.

Expenditures on public domain, agriculture and highways are influenced by the fact that Alberta possesses the last important undeveloped agricultural frontier in Canada. Development of this frontier, and also of the newly discovered mineral and oil resources, calls for substantial capital investment and for increased expenditures on current account. The nature of the terrain and the long distances which separate the settled areas make the provision and maintenance of highways more costly than average.

Summary

Alberta's financial position should be considered in relation to its present economy and its potential development, as well as to the condition of default which now exists. High debt charges have unquestionably been an outstanding and important characteristic, not only of Alberta public finance but of the whole economy, and they become extremely serious when income falls sharply. The pressure is intensified, of course, by the fact that most of the debt is held externally and the creditors are consequently not subject to the jurisdiction of Alberta taxing authorities. In these circumstances the rigidity of the debt structure will, on occasion, put great pressure on the economy, and, as a natural reaction, make the position of creditors highly vulnerable. A more elastic and appropriate form of financing than that of fixed interest rates for agriculture and other economic activities would add greatly to the Province's prospects of financial stability. The need for additional capital to finance the development which Alberta's resources would apparently justify makes this an extremely important factor. With a private and public financial structure designed in relation to its regional characteristics and economic disabilities, Alberta should be able to maintain a high standard of living and of community services.

British Columbia

Table 103.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	B.C.	All Prov.	B.C	All Prov.	B.C.	All Prov.	B.C.	All Prov.
Real Property Taxes	26.11	22.60	38	45	2.74	0.53	23.37	22.07
Gasoline Taxes and Motor Vehicle Licences	8.03	5.84	12	12	8.03	5.84	—	—
Public Domain	5.88	1.90	8	4	5.88	1.90	—	—
Liquor Control	5.45	2.68	8	5	5.45	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc	7.70	6.85	11	15	3.62	1.64	4.08	5.20
Sub-Total	53.17	39.87	77	81	25.72	12.59	27.45	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	9.25	3.06	13	6	9.25	3.06	—	—
Income Taxes on Persons	2.67	1.24	4	2	2.67	1.07	—	0.17
Succession Duties	1.90	3.22	3	6	1.90	3.22	—	—
Total Revenue from Provincial Sources	66.99	47.96	97	96	39.54	20.11	27.45	27.84
Federal Subsidies	2.16	1.91	3	4	2.16	1.91	—	—
TOTAL	69.15	49.87	100	100	41.70	22.02	27.45	27.84

Revenue System

The most striking feature in the above table is the comparison between the per capita revenues of the provincial government of British Columbia and the average for all Canadian provinces. The British Columbia figure is nearly double the average. Municipal revenues are at the Canadian average, although a smaller portion of British Columbia is municipally organized than is the case in most provinces.

Nearly all the revenue sources produce higher returns than in the rest of Canada, but the most striking lead is in corporation taxation and public domain revenues. These are three times the Canadian average in yield per capita. They are made possible by the richness of some of British Columbia's natural resources and the highly concentrated corporate form of organization which has been adopted to exploit them. Gasoline taxes, liquor control profits and real property taxation all substantially exceed national averages and reflect the higher per capita income and purchasing power in British Columbia. On the other hand, succession duty yields are little more than half the national average, in part because sufficient time has not yet elapsed for the accumulation of large individual fortunes, and in part because provincial policy has been to encourage migration to the coast of wealthy retired people. Revenues, and particularly provincial corporation, gasoline, liquor control and public domain revenues, showed remarkable recovery from the low point in 1933. Provincial revenues in 1937 were almost one-quarter more than in 1929. Owing to a fall in real property tax yields in Vancouver, however, there was a slight decline in total municipal revenues, and aggregate provincial-municipal revenues increased only some 11 per cent between 1930 and 1937, or slightly less than the increase for all provinces and municipalities. The dominating importance of corporation taxes and public domain revenues will be noted from the foregoing table. These two revenue sources, on a per capita basis, are three-fourths as much as the total provincial government revenues of all provinces, or nearly as much, for example, as the total provincial government revenues of Quebec. They reflect the higher than average return derived from the large-scale development of British Columbia's natural resources

made possible in the last two decades by technological advances and important reductions in ocean freight rates. Many of these resources are of a wasting character, and it has evidently been the Province's policy to secure a substantial share of the profits derived from their exploitation while it has the opportunity. In addition to the direct return derived by the provincial government from its natural resources, the higher than average income in British Columbia is based to an important extent on their very rapid development and on the ancillary construction industry activity in the last two decades, and this income is reflected in the generally high yield of consumption and other taxes.

The provincial income tax, which was the first to be imposed in Canada, starts at a relatively low figure (single person's exemption $600) and progresses to a rate of 10 per cent on all taxable income plus a surtax rising to 18 per cent on large incomes. As no exemption is allowed for Dominion income tax payments,* the tax is a relatively heavy one on higher incomes. It has proved a stable source of revenue, and yields substantially more per capita than does the Ontario income tax, for example, but the double taxation involved is resented.

TABLE 104.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.
Net Debt Charges	14.37	9.52	21	20	8.71	4.59	5.66	4.94
Public Welfare—								
Relief	6.09	5.45	9	11	5.09	3.86	1.00	1.59
Other	10.47	7.26	15	15	6.25	4.05	4.22	3.21
Education	12.47	9.78	18	20	5.69	2.89	6.78	6.89
Agriculture and Public Domain	2.53	1.86	4	4	2.53	1.86	—	—
Transportation	6.18	5.03	9	10	3.83	2.27	2.35	2.75
General Government and Miscellaneous	15.74	9.80	24	20	7.04	3.77	8.70	6.03
TOTAL	67.85	48.70	100	100	39.14	23.29	28.71	25.41
Per Capita Provincial Income, $	425	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	379	291	—	—	238	177	141	115
Percentage of Current Expenditure to Provincial Income	16	14	—	—	9	7	7	6
Percentage of Outstanding Debt to Provincial Income	89	84	—	—	56	51	33	33

Expenditures

Per capita net debt charges of combined provincial and municipal governments are 50 per cent above the Canadian average, but they increased only 10 per cent between 1930 and 1937 as compared with an average increase of 24 per cent. These charges have, in fact, declined slightly since 1932, when the premium on foreign exchange was an important item. Virtually all net increase in debt since 1933 has been borrowed from the Dominion on 3 per cent Treasury Bills, but some public borrowing, largely for refunding purposes, has also been done at 3 and 3½ per cent. There has also been some reduction in recent years in the outstanding provincial debt payable abroad but nearly four-fifths of the funded debt is still optionally payable in other than Canadian currency. Three-fifths of the provincial debt bearing 4½ per cent or higher coupons matures before 1950, with particularly large maturities in the early forties. The Government has maintained large cash balances and sinking funds in preparation for these maturities, and its technical position to refund them on

* Although income taxes paid by B.C. corporations to the provincial government are deductible from personal income taxes paid by B.C. dividend recipients.

advantageous terms would appear to be strong. There have been no significant variations in municipal debt in recent years.

Expenditures on education and public welfare (excluding relief) are about one-third above the national per capita average, although they do not absorb quite as large a proportion of total municipal-provincial revenues as in other provinces. The notably high return from public domain and corporation taxation has made it possible for the Province to provide higher than average services, and has enabled the provincial government to contribute a substantially larger proportion of the total than in any other province (except Prince Edward Island). This is particularly notable in the case of education, where the provincial government provides 45 per cent of the expenditure as compared with an average contribution of 30 per cent. In several important fields of public welfare British Columbia has pioneered and this, coupled with higher costs of living and of salaries and the sparseness of the population outside the metropolitan area of Vancouver, has contributed to the higher than average costs in British Columbia. However, even after allowing for these factors, it would seem clear that British Columbia provides better than average standards in these services.

Relief costs in British Columbia rose sharply at the beginning of the depression, and have throughout been substantially more than the national average. Although they were not as severe in relation to provincial income as in the Prairie Provinces, the Province was forced to resort to borrowing from the Dominion as early as 1931 and, in spite of the buoyant revenues of recent years, the relief burden has prevented the complete re-establishment of provincial credit. The extreme depression in the primary exporting industries (and in those supplying the Prairies), the impact on the service, supply and shipping industries of Vancouver, the immigration of unemployed attracted by the coast climate, and the higher standards maintained, all intensified the problem. In common with the rest of the country public works were undertaken on a large scale in the early years of the depression, but since 1932 the bulk of the expenditure has been on direct relief. However, since 1935 the municipal proportion of the total burden has declined as rapidly rising provincial revenues enabled the provincial government to assume a larger share. In addition, provincial government expenditures on public works, which were reduced to virtually nothing in the depths of the depression, have recovered to approximately pre-depression levels and have been a factor in reducing unemployment.

Expenditures on public domain and transportation, as might be expected from the topographical nature of the Province and the importance of developing its great but sometimes almost inaccessible resources, exceed the average per capita expenditures. It would seem clear that substantial additional expenditures on conservation of some types of resources, and on development of alternative means of livelihood for the population dependent on the exhaustible resources, will be necessary.

Expenditures on general government are strikingly higher than average. They are more than double the expenditures in the three Maritime Provinces together, for example, and nearly double expenditures in Manitoba or Alberta, which have each approximately the same population. To some extent this may be explained by the higher costs arising from the nature of the country, and from higher salaries necessary in order to develop a competent Civil Service in step with the rapid expansion of the Province, but the 10 per cent increase in these expenditures between 1930 and 1937 compares with a 4 per cent decrease in expenditures on general government by all Canadian governments over the same period.

Summary

British Columbia's high provincial income combined with its high rates of taxation yields a very much larger than average government revenue, and have made possible the provision of government services of superior standard. To an important extent, however, the Province has been living on its capital, and it can scarcely be expected that the fortuitous coincidence of economic events of the last two decades which proved so stimulating and advantageous to British Columbia will be repeated. The necessity for amortizing debt incurred for developmental projects, and particularly for those such as the Pacific Great Eastern which have already proved ill-advised and unproductive, before the best of the resources are exhausted, is clear. Equally important is the most economic utilization of the remaining resources, and the development of ways and means of strengthening the economy for the future. The high and apparently rigid character of governmental overhead costs will be a serious liability when resources are depleted, particularly as the present revenue system, which has been so strikingly productive in recent years, would in these circumstances be seriously crippled. However, in the

meantime British Columbia residents have the advantage of better education and better communal services than has the average Canadian citizen, and they have shown a willingness to maintain these standards by submitting to higher than average taxation.

5. The Contrast: Confederation and Today

Within the brief compass of the preceding chapters we have attempted to portray the significant economic, financial, political and social changes which constitute the background of the present problems of Dominion-provincial relations and public finance. To obtain a proper understanding of those problems we have found it necessary to survey the history of Confederation, and to analyse the factors which have determined the course of Canadian development and have made Canada what it is to-day. We have outlined the forces which brought about Confederation, the federal distribution of financial powers and responsibilities which was set up in 1867, and the political and economic objectives of the new self-governing British Dominion in North America. We have described, with particular reference to the working of the federal fiscal system, how, within that political framework, the isolated regions and pockets of settlement with a population of less than three and a half millions have grown into an integrated transcontinental economy with a population of eleven millions; how small towns and cities have grown into large urban concentrations and great metropolitan centres; how the self-sufficiency of the household and the family has been superseded by highly specialized activities which are closely dependent upon the smooth operation of an intricate exchange economy; how the meagre but relatively stable incomes have risen to support a much higher but more precarious standard of living; and finally how the philosophy of government has changed from one of laissez-faire to one of increasing interference with a view to improving economic and social conditions. These far-reaching changes have had a profound effect upon public finance, and particularly upon that of our federal system.

Table 105.—The Growth of Government Expenditures Since Confederation and the Increasing Share Borne by the Provinces and Municipalities

(Millions of Dollars)

—	Total[a]		Dominion		Provinces		Municipalities		Percentage of Dominion to the Total	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Net Debt Charges	6.6	271.3	5.4	167.0	0.6	50.9	1.8[b]	54 8	82	62
National Defence and War Pensions	1.3	88.0	1.3	88.0	—	—	—	—	100	100
Public Welfare—										
Relief	—	126.6	—	66.1	—	42.9	—	17.6	—	52
Other	1.4	124.4	0.2	43.8	0.7	45.0	0.5	35.6	14	35
Education	3.0	108.9	—	—	1.4	32.1	1.6	76.5	—	—
Highways and Transportation	5.4	73.8	2.8	18.0	1.2	25.2	1.4	30.6	52	24
Highways and Transportation (including debt charges)	(9.8)	(240.4)	(7.2)	(143.0)	(1.2)	(51.6)	(1·4)	(45.8)	(73)	(59)
Public Domain and Agriculture	1.6	38.5	0.9	17.9	0.7	20.6	—	—	56	46
General Government and Miscellaneous	12.6	164.6	6.0	56.2	3.9	41.8	2.7	66.9	48	34
Subsidies to Provinces	—	—	3.8	21.2	—	—	—	—	—	—
TOTAL	31.9	996.1	20.4	478.2	7.3	258.5	8.0	282.0	64	48
Total Expenditures Per Capita, $	8.19	89.58	5.24	43.00	1.87	23.25	2.05	25.36	—	—
Percentage of Total Expenditures to the National Income	9%	26%	6%	12%	2%	7%	2%	7%	—	—

[a] Less Duplications.
[b] Estimated.

The revolutionary change since Confederation in the economic and social role of government is strikingly illustrated in Table 105 above. Between 1874 and 1937 total per capita government expenditures increased by eleven times. The portion of the national income spent by governments rose from less than one-tenth to more than one-fourth of the total. The collective efforts to promote economic development and the collective assumption of the responsibility for the alleviation of individual distress and for the provision of rising standards of public welfare and education have come to play an immensely important part in the economic affairs of the country—a part which could hardly have been envisaged at the time of Confederation and provided for in the framing of the constitution. The amounts expended to promote economic development, added to debt charges arising out of war and deficits, have risen from $14 million to $384 million. The cost of education and public welfare rose from the almost negligible figure of $4 million to $360 million. Such increases would in any case have created difficult problems for public finance, but under the federal system these difficulties were greatly enhanced. The division of powers and responsibilities devised at Confederation was made on the basis of conditions existing at the time. The Federal Government was charged with the responsibilities which were then national in scope—of which defence and economic development were the most important—and the provinces and their municipalities with responsibilities which were then predominantly local in nature, including education, public welfare and local works. The growth in government expenditures and functions has not fitted the simple pattern which was set up in 1867. Government responsibilities which were formerly of purely local significance have become national in character. The provinces have assumed heavy commitments for economic development. The invention of the motor vehicle has added heavy burdens to provincial expenditures on transportation. A number of essential or important public welfare services which have remained as primary obligations of local governments can now be provided efficiently only on a national basis. The provinces, which at the time of Confederation were not expected to incur any sizeable debts, had by 1937 assumed debt charges which absorbed over one-fifth of their current revenues. Public welfare, the outlay upon which was negligible in 1874, took more than one-third of the provincial revenues in 1937. Thus, expenditures which were virtually non-existent at Confederation absorbed nearly 60 per cent of total provincial receipts on current account in 1937. The development of these expenditures by the provinces in addition to the share supported by their municipalities has greatly altered the relative importance of the different layers of government in our federal system. The share of the total costs of government borne by the Dominion, which possessed the broadest base of taxation, fell from two-thirds to less than one-half. Furthermore, an important part of the Dominion's outlay at the present time, namely for relief and old age pensions, is actually expended by the provinces.

The increase in revenues required to support the immense rise in government expenditures has placed a heavy strain on the constitutional division of powers adopted at Confederation. The revenue sources used in 1874 (of which customs and excise collected by the Dominion made up two-thirds of the total), provided only one-half of all government receipts in 1937 including the taxes on real estate which have continued to support virtually the whole of the great increase in municipal services. The Dominion, which in 1874 depended almost entirely on the essentially national revenue sources of customs duties and excises on a few luxuries, has expanded its income mainly by a heavy impost on general consumption, by levies on corporations and by the taxation of personal net incomes. The provinces, which at Confederation were given power to levy direct taxation, but were expected to rely on the fixed federal subsidies, and on receipts from public domain and from various licences and fees, obtained less than one-fourth of their income from these sources in 1937. The unconditional federal subsidies comprised nearly two-thirds of total provincial revenues in 1874 and less than one-tenth in 1937. The great bulk of the present provincial revenues is collected from sources which have been interpreted as falling under provincial jurisdiction but which could hardly, if at all, have been envisaged at Confederation. Some of these sources are directly competitive with those employed by the Dominion; many of the others constitute onerous or uneconomic levies on consumption and the costs of production. With the joint occupation of the field of direct taxes, neither the Dominion nor the provinces nor both together have been able to employ the progressive taxes to the extent which is economically and socially desirable.

It is clear that the present situation in Canadian public finance represents a wide departure from the conception of the Fathers of Confederation and from the spirit of the financial settlement which

TABLE 106.—GROWTH OF GOVERNMENT REVENUES SINCE CONFEDERATION

(Millions of Dollars)

—	Total[a]		Dominion		Provinces		Municipalities		All Government Percentage to Total Revenues	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Revenue from Sources used at Confederation—							[b]			
Customs	14.4	112.1	14.4	112.1	—	—	—	—	46	11
Excise	5.6	52.0	5.6	52.0	—	—	—	—	18	5
Public Domain	1.8	23.6	0.4	2.5	1.4	21.1	—	—	6	2
Licences, Permits and Fees	1.2	21.9	—	2.5	0.7	8.9	0.5	10.5	4	2
Taxes on Real Property	6.5	250.8	—	—	—	5.9	6.5	244.9	21	25
Miscellaneous	1.5	39.1	0.4	10.2	0.1	3.3	1.0	27.0	5	5
Sub-Total	31.0	499.5	20.8	179.3	2.2	39.2	8.0	282.4	100	50
Revenue from Sources Developed since Confederation—										
Sales Taxes	—	144.4	—	138.1	—	1.9	—	4.4	—	15
Gasoline Taxes and Automobile Licences	—	64.8	—	—	—	64.8	—	—	—	6
Liquor Control	—	29.8	—	—	—	29.8	—	—	—	3
Manufacturers Taxes	—	17.2	—	17.2	—	—	—	—	—	2
Amusement Taxes	—	2.8	—	—	—	2.8	—	—	—	—
Miscellaneous Taxes	—	30.8	—	7.4	—	3.1	—	20.4	—	3
Corporation Taxes	—	105.7	—	71.7	—	34.0	—	—	—	11
Income Taxes on Persons	—	64.4	—	50.6	—	11.9	—	1.9	—	6
Succession Duties	—	35.8	—	—	—	35.8	—	—	—	4
Sub-Total	—	495.7	—	285.0	—	184.1	—	26.7	—	50
Total Revenues Raised by Each Class of Government	31.0	995.2	20.8	464.3	2.2	223.3	8.0	309.1	100	100
Federal Subsidies to the Provinces	—	—	—	—	3.8	21.2	—	—	—	—
GRAND TOTAL	31.0	995.2	20.8	464.3	6.0	244.5	8.0	309.1	100	100
Percentage of Revenue Raised by each Class of Government to Total	100%	100%	67%	47%	7%	22%	26%	31%	—	—

[a] Less Duplications.
[b] Estimated.

they devised. Costly government responsibilities which have become national in scope are being supported by regional and local revenues. Revenue sources which have become national in character are being employed by regional and local governments to the complete or partial exclusion of the central authority. We have seen that the efficient administration of the functions of government under present day conditions requires some redistribution of the functions as between the Dominion and the provinces. In the same way, if the growing waste and inequities in taxation are to be avoided, a better allocation of taxing powers and responsibilities is imperative. A third essential step will be to adjust the revenue sources to the functions so as to ensure that every unit of government will be financially able to meet its recognized responsibilities.

The fifth Dominion enactment to be held *ultra vires* by the Privy Council in 1937 was the *Natural Products Marketing Act*. It provided for regulation of the marketing and distribution of natural products by a Dominion Marketing Board. The Board was given power, under certain conditions, to determine the time and place of and the agency for marketing as well as the quantity, quality and grade of any natural product which was to be allowed to be marketed at any time. The Act was to be applicable to a particular natural product only when the principal market for it lay outside the province of production or when some portion of it went into export trade. When these conditions were satisfied, the regulations contemplated by the Act were applicable to all marketing transactions in the particular product, including those which were finally completed within the province of production. In other words, the Act was applicable to some portion of purely intra-provincial trade as well as to interprovincial and export trade.

The Privy Council found this measure to be beyond the power of the Dominion Parliament because the federal power to regulate trade and commerce under section 91 (2) did not extend to the regulation of trading transactions completed within a single province.[19] This ruling confirmed earlier decisions on the meaning of the phrase, "regulation of trade and commerce". Whatever its exact scope, it was confined to interprovincial and international aspects of trade. According to rulings of the Privy Council, it does not justify the regulation of the financial practices of insurance companies,[20] nor general regulation of the grain trade[21] through a system of licences. It does not cover prohibition of trade combinations and regulation of the supply and price of the necessaries of life.[22] Nor do compulsory provisions for investigating industrial disputes come within its terms.[23]

In each of these Dominion attempts at economic regulation just referred to, the common defect was that each involved an interference with trades and businesses carried on within a single province and was not applicable merely to interprovincial or international aspects of trade and commerce. Although the exact scope of the phrase "regulation of trade and commerce" is not yet clear, it is settled that it does not cover the regulation of purely provincial trades, businesses and business transactions. Power to establish such regulations belongs exclusively to the provinces.[24] On the other hand, it is equally clear that the provinces have no power to regulate interprovincial and export trade.[25] The Privy Council ruling of 1937 holding the *Dominion Natural Products Marketing Act* invalid emphasized again the fact that the power to regulate economic life is divided between the provinces and the Dominion, and that neither one can encroach upon the sphere of the other.

It should be pointed out by way of caution, however, that the Dominion, relying on other heads of section 91, has a considerable power of economic regulation. It has some power of control over the operations of companies with Dominion charters which are, in substance, its own creatures and, therefore, in some degree, subject to its supervision. By use of its power to declare local works to be for the general advantage of Canada, it has been able to exercise effective control over the grain trade.[26] As was confirmed by the Privy Council in one of the references concerning the social legislation of 1935 which is not specifically discussed here, the Dominion Parliament, under its power to enact the criminal law, has power to prohibit economic practices (e.g. certain kinds of trade combinations), provided the courts are satisfied that Parliament has acted in good faith in stigmatizing them as criminal offences and is not "using the criminal law as a pretence or pretext" to encroach upon provincial powers.[27] Under other specific powers, the Dominion has extensive control over banks and monetary matters, bankruptcy, railway and air transportation, shipping and interprovincial communications.[28] In other fields and other circum-

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[19] *Attorney-General of British Columbia* v. *Attorney-General of Canada*, [1937] A.C. 377.

[20] *Attorney-General of Canada* v. *Attorney-General of Alberta*, [1916] 1 A.C. 588; *Attorney-General of Quebec* v. *Attorney-General of Canada*, [1932] A.C. 41.

[21] *Rex* v. *Manitoba Grain Co.*, [1922] 2 W.W.R. 113; *The King* v. *Eastern Terminal Elevator Co.*, [1925] S.C.R. 434.

[22] *In re Board of Commerce Act*, [1922] 1 A.C. 191.

[23] *Toronto Electric Commissioners* v. *Snider*, [1925] A.C. 396.

[24] *Shannon et al.* v. *Lower Mainland Dairy Products Board*, [1938] A.C. 708.

[25] *Lawson* v. *Interior Tree Fruit and Vegetable Committee*, [1931] 2 D.L.R. 193; *In re Grain Marketing Act*, [1931] 2 W.W.R. 146.

[26] This power of the Dominion which is derived from the exception to s. 92 (10) was employed to declare all the grain elevators used in the western grain trade to be works for the general advantage of Canada. The validity of this use of the device has not yet been considered by the Privy Council but it is supported by the high authority of Duff, C.J., who suggested it as a means of establishing Dominion control over the grain trade. See *The King* v. *Eastern Terminal Elevator Co.*, (1925) S.C.R. 434 at p. 448.

[27] It is difficult to state exactly the scope of the Dominion power to make criminal law. Compare *In re Board of Commerce Act*, [1922] 1 A.C. 191 with *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310. The latter decision is confirmed by the Reference *re* section 498A of the Criminal Code, [1937] A.C. 368 and it is believed that the statement in the text sums up the law as accurately as it can be stated at present.

[28] The extent of Dominion power over these topics depends upon the enumerated heads of s. 91.

the Dominion cannot give effect to treaties which it alone has power to negotiate. The second proposition established by this decision is also involved in the decision on another of these statutes, the *Employment and Social Insurance Act,* and can be most conveniently discussed along with it.

The *Employment and Social Insurance Act* provided for a nation-wide system of unemployment insurance in specified industries to be supported, in part, by compulsory contributions of employers and employees and, in part, by contributions from the Federal Government. Such a scheme, the Privy Council held, was beyond the powers of the Federal Parliament to enact because it affected "Property and Civil Rights in the Province".[12] The argument that unemployment was a national evil, justifying national action under the "peace, order and good government" clause of section 91 was met by reference to a line of decisions holding that this clause of section 91 conferred on the Dominion an emergency power only.

In the interval between 1896 and 1937, Lord Watson's remark in the Local Prohibition Case that "some matters in their origin local and provincial might attain such dimensions as to affect the body politic of the Dominion and to justify the Canadian Parliament in passing laws for their regulation . . ." under the general clause of section 91 had been explained in several cases. In substance, these cases had decided that, during the stress of a severe crisis like the War of 1914-18, the Dominion Parliament had power to fix the prices of commodities and to regulate comprehensively other aspects of Canadian economic life under the "peace, order and good government" clause[13] but that as soon as the crisis was overcome, the power to impose such regulations evaporated.[14] Other decisions had emphasized the emergency nature of the general clause of section 91.[15] The two decisions of 1937 now being reviewed made it finally clear that this general power was operative only in temporary and overwhelming emergencies such as war, pestilence or famine.[16]

The Canadian dilemma over social legislation wa thus sharply outlined. The constitution forbids th Dominion to establish uniform labour legislatio of general application and, despite the unrestricte taxing powers of the Dominion, the possibility o framing any contributory social insurance scheme of nation-wide extent which could be validly enacted by the Dominion, is open to the graves doubt.

Temporary evils of great magnitude may b grappled with by Dominion legislation under th general clause of section 91 but an enduring an deep-rooted social malaise, which requires th mobilizing of efforts on a nation-wide scale to dea with it, is beyond the power of the Dominio unless it is comprised in the enumerated heads o section 91. Generally, therefore, the power to dea with these pressing social questions rests with th provinces. But this makes it very difficult to secur the uniformity of standards which are desirable i many kinds of social legislation. Moreover, th provinces are limited in their access to revenue by the financial settlement of 1867 (and in practic by Dominion taxation in the same fields) and man of them are unable to carry the financial burde involved.

Of course, these difficulties had been encountere in practice long before the Privy Council decision of 1937. Over a period of twenty-five years several attempts have been made to overcome then by the method of Dominion conditional grants o financial assistance to the provinces. In variou matters where uniform governmental action wa deemed desirable in the national interest, th Dominion has made grants available to the prov inces for special purposes on condition that th province undertake the work and maintain certai standards, designed to secure a fair degree o uniformity across the country.[17] The Dominio has tried to secure sufficient control over th administration of the particular activity by th provinces to enforce the maintenance of the desire standards. This has involved very substantia efforts in administrative co-operation between th provinces and the Dominion. The results obtaine from this co-operation are far from reassuring.[18] The experience gained from these efforts will b discussed later.

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[12] *Attorney-General of Canada* v. *Attorney-General of Ontario,* [1937] A.C. 355.

[13] *Fort Frances Pulp and Paper Company* v. *Manitoba Free Press,* [1923] A.C. 696.

[14] *In re Board of Commerce Act,* [1922] 1 A.C. 191.

[15] *E.g.,* see *Toronto Electric Commissioners* v. *Snider,* [1925] A.C. 396 at p. 412.

[16] Under normal conditions, only a few matters of minor importance, not significant for present purposes, have been held to come within the scope of the general power in s. 91. For a list of these, see Plaxton, *Canadian Constitutional Decisions of the Judicial Committee, 1930-1939,* p. XXXII. (All important constitutional decisions in this period are included in this volume.)

[17] For an account of these grants see Wilfrid Eggleston an C. T. Kraft, *Dominion-Provincial Subsidies and Grants* (mimeographed), pp. 35*ff.* The constitutional validity of such grant is not entirely beyond doubt. *Attorney-General of Canada* v *Attorney-General of Ontario,* [1937] A.C. 355 at p. 366.

[18] For a discussion of the working of the administrativ relationships involved in these grants, see Appendix 7—J. A Corry, *Difficulties of Divided Jurisdiction,* Ch. VI; *cf.* Eggleston and Kraft, *op. cit.*

The Dominion power under section 91 (2) "regulation of trade and commerce" has received a restricted interpretation, improving on the limitations suggested in *Citizens' Insurance Company* v. *Parsons*[3] in 1882 until, in 1925, the Privy Council questioned whether it was operative at all as an independent source of legislative power.[4] More recent decisions show that it has some scope[5] but the narrow meaning given to it limits severely the power which it confers on the Dominion to regulate economic life.

The trend of interpretation, therefore, has been favourable to provincial power. However, between 1930 and 1932, the Privy Council handed down several decisions upholding Dominion legislation in a manner which seemed to involve qualifications on some of their earlier pronouncements[6] and, at the same time, to countenance freer and looser interpretation of the British North America Act than had hitherto been adopted.[7] Some regarded these decisions as marking a reversal of the trend of decision and a new emphasis on the scope and magnitude of Dominion powers. But this reversal of trend by the Privy Council, if reversal it was, turned out to be merely temporary, as its adverse decision in 1937 on a number of Dominion measures, commonly known as the Bennett "New Deal", clearly showed.

These decisions of 1937 scarcely came as a surprise but they served to underline again the wide scope of provincial powers and responsibilities in modern economic and social legislation. When related to the limitations on the taxing powers of the provinces under the British North America Act and the wide disparities in the yield of revenue sources in the different provinces, they placed the crisis which had been gathering in Canadian public finance in clear relief. In a sense, it may be said that these decisions framed the Commission's terms of reference and it is both appropriate and revealing that this discussion of the constitutional position today should revolve around them. With some reference to earlier decisions on particular points, a discussion of these cases illustrates the division of legislative power between the provinces and the Dominion in relation to the urgent issues of the present day.

In 1936 the constitutional validity of eight Dominion enactments was referred to the Privy Council and their decisions on them were rendered early in 1937.[8] The validity of two of these statutes was upheld in full,[9] and of one of them, in part.[10] These three statutes are not highly important for our purposes and they need not be discussed in detail. But the nature and the fate of the remaining five require careful consideration.

Three of the remaining five enactments, the *Weekly Day of Rest in Industrial Undertakings Act*, the *Minimum Wages Act* and the *Limitation of Hours of Work Act*, established, as their titles indicate, nation-wide standards for minimum wages and maximum hours of weekly work. They were enacted by Parliament pursuant to obligations assumed by the Dominion under conventions of the International Labour Organization and were thus, in substance, in fulfilment of treaty obligations of Canada. All three were held by the Privy Council to affect "Property and Civil Rights in the Province" and, therefore, to be beyond the powers of the Dominion Parliament to enact.[11]

Apart from the fact that the decision on these statutes denied the power of the Dominion to set up nation-wide standards of labour legislation, it established two general propositions of great significance. First, it interpreted section 132 of the British North America Act which empowers the Dominion Parliament to implement "the Obligations of Canada or of any Province thereof, as Part of the British Empire, toward Foreign Countries arising under Treaties between the Empire and such Foreign Countries." It held that the power of the Dominion under section 132 applies only to "British Empire treaties" negotiated by the Imperial Executive where the treaty obligations involved are assumed by Canada as part of the British Empire. In international treaties which the Dominion negotiates in its own right as an independent political unit, the power of the Dominion to implement the treaty by legislation depends entirely on whether the subject matter of the treaty falls within section 91 or section 92. That is to say, in view of the broad interpretation given to section 92, there are a number of matters on which

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[3] See pp. 32-34 for these suggested limitations.

[4] *Toronto Electric Commissioners* v. *Snider*, [1925] A.C. 396 at p. 410.

[5] *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310 at p. 326; *Attorney-General of Ontario* v. *Attorney-General of Canada*, [1937] A.C. 405.

[6] *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310; *In re Regulation of Aeronautics*, [1932] A.C. 54; *In re Regulation of Radio Communication*, [1932] A.C. 304.

[7] See *Edwards* v. *Attorney-General of Canada*, [1930] A.C. 124.

[8] For a full discussion of these decisions, see the symposium by a number of leading constitutional authorities in [1937] 15 *Canadian Bar Review*, 401-507.

[9] Reference *re Section 498A of the Criminal Code*, [1937] A.C. 368; Reference *re Farmers' Creditors Arrangement Act*, [1937] A.C. 391.

[10] Reference *re Dominion Trade & Industry Commission*, [1937] A.C. 405.

[11] These three enactments were dealt with in a single opinion. See *Attorney-General of Canada* v. *Attorney-General of Ontario*, [1937] A.C. 326.

Chapter IX

THE CONSTITUTION TO-DAY

In an earlier chapter the significant decisions on the meaning of the British North America Act given by the Privy Council before 1896 were briefly considered and their bearing on the future interpretation of the constitution was pointed out.[1] Between 1896 and the present the Privy Council has decided well over one hundred cases which involved the interpretation of various provisions of the British North America Act. Some of these cases dealt with matters of very minor importance but the vast majority of them have been woven into the texture of the constitution. An accurate and complete statement of what the constitution is at the present day must analyze these cases, considering the scope of the decisions and the qualifications, express or implied, imposed by later decisions on earlier ones. Such a minute examination is beyond the scope of this Report and would involve a lengthy excursion into constitutional niceties, of interest mainly to specialists.

But the interpretations of the Privy Council have marked out the limits of the legislative power of the Dominion and the provinces. Among other things, they have determined the scope of provincial taxing powers. In these ways the decisions of the Privy Council have fixed both the responsibility for carrying out new functions which it is considered desirable for governments to undertake and the limits of the revenue sources available to the province for financing its activities. In working within this framework to meet mounting demands for governmental action, many new aspects of Dominion-provincial relations have emerged. The interpretation of the constitution in relation to twentieth century demands has helped to shape the present financial relationships between the Dominion and the provinces and has led to the adoption of several expedients involving co-operative action by the Dominion and the provinces. These co-operative ventures have, in turn, complicated the relationships which the Commission is required, by its terms of reference, to examine.

Accordingly, a survey of the constitutional development is necessary for the understanding of present problems. It is also important to see how the provinces and the Dominion were forced into these co-operative ventures and to appreciate the inherent difficulties which they involve. A short survey of constitutional developments cannot hope to deal adequately with many constitutional complexities. An attempt to state briefly how the constitution allots responsibility for dealing with the problems which absorb the attention of legislatures today must speak in general terms without exhaustive reference to the legal decisions in which these matters have been explained. It cannot state all the qualifications to which any general proposition is subject nor grapple with the obscurities which still undoubtedly exist. What follows is a summary of those aspects of the constitution relevant to the inquiry conducted by the Commission and not a full exposition of constitutional law.

The Restrictive Interpretation of Section 91

In its interpretation of the British North America Act in the last forty years, the Privy Council has adhered to the general rule of construction laid down by Lord Watson in the Local Prohibition Case[2] in 1896 which accorded Dominion legislation under the enumerated heads of section 91 primacy over the provincial powers set out in section 92 but denied this primacy to the general clause of section 91 which gave the Dominion power to make laws for the "peace, order and good government of Canada". This rule of construction, coupled with a broad interpretation of the general expression "property and civil rights in the province", contained in section 92, has given a narrow application to the so-called residuary clause in section 91. Accordingly, with rare exceptions, if a proposed piece of Dominion legislation does not fall within the specific enumerations of section 91, it is beyond the enacting power of the Dominion and within the powers of the separate provinces. That is to say, most of the novel legislation of our day, which is not of a type actually contemplated and expressly provided for by the framers of the British North America Act, must be enacted, if at all, by the provinces. There is much truth, as well as some exaggeration, in the contention that the "property and civil rights" clause has become the real residuary clause of the constitution.

[1] See pp. 30 *ff.*

[2] See p. 58 for a discussion of this case.

stances, however, it cannot go beyond regulation of the interprovincial and international manifestations of business activity.

While the desirability of the sweeping kind of regulation contemplated by the *Natural Products Marketing Act* is the subject of considerable controversy, the pronouncement of its invalidity by the Privy Council confirmed earlier doubts about the validity of several much less drastic Dominion measures relating to marketing,[29] which were generally agreed to be desirable. Several Dominion statutes had set up compulsory grading legislation on a nation-wide scale for a variety of natural products. From time to time, most of the provinces had sought to cure any possible constitutional defects of these Dominion enactments by enabling legislation designed to authorize the Dominion to impose its grading regulations on purely provincial transactions.[30] In 1935 and 1936, several provincial Courts of Appeal held that this enabling provincial legislation, in the form in which it came before them, was invalid, being an unconstitutional delegation of power to the Dominion.[31]

The delegation of power by a province to the Dominion and vice versa would be a useful device for overcoming, in practice, the difficulties which arise from the division between the provinces and the Dominion of legislative power over many complex economic activities. Unified control and administration in the hands of a single government is sometimes desirable but it is very doubtful whether, as the constitution stands at present, the delegation of legislative power is constitutionally possible.[32]

Such a power of delegation would give the constitution a flexibility which might be very desirable. With the present degree of economic integration on a national scale, it is extremely difficult for either the Dominion or a province to frame legislation which will deal separately and effectively with the local or with the interprovincial aspects of business activity, as the case may be. When natural products are assembled for national or international markets and the manufacturing and distributive trades operate on a nation-wide or international scale, most of the large important trades and businesses are engaged at the same moment in both intra-provincial and extra-provincial activities. These activities are so intertwined that it is difficult to isolate purely intra-provincial activities so as to apply provincial regulations to them and equally difficult to select the interprovincial activities and foreign activities which are subject solely to federal regulation.

For example, the grading of natural products, in order to serve its purpose, should be done when the product passes from the producer into the hands of the dealer, but it is frequently impossible at that stage to tell whether the particular lot of produce is destined for intra-provincial or for interprovincial or export trade and, therefore, impossible to say whether provincial or federal regulations should be applied. In the absence of a power to delegate legislative authority and control to a single government in such situations, the only alternative where comprehensive regulation seems desirable is a scheme of joint Dominion and provincial legislation and administration. For reasons which are noted later, such schemes have inherent weaknesses which can be avoided by delegation of legislative power to a single authority.[33]

Several situations have arisen where regulation is admittedly necessary but the constitution divides the power of regulation between the provinces and the Dominion. The case of the marketing of natural products has already been noted. The fact that the ownership of inland fisheries goes with the public domain to the provinces while the Dominion has the ownership of the seacoast fisheries and the full power of regulation over all fisheries[34] has caused some confusion. The Dominion has power to enact compulsory legislation concerning industrial disputes in industries over which it has a comprehensive general power of regulation, such as interprovincial railways. The provinces have power generally to legislate respecting industrial disputes and, therefore, situations may arise where two or more governments are concerned in the settlement of a dispute.[35] In each of these cases, efforts have been made in the past to surmount the difficulties by delegation of power but they are now either embarrassed or being abandoned owing to the dubious constitutionality of the device.

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[29] *E.g.*, see *Rex* v. *Collins*, [1926] 59 O.L.R. 453.

[30] For an account of the nature of this provincial legislation, see Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 13-16.

[31] *Rex* v. *Zaslavsky*, [1935] 3, D.L.R. 788; *Rex* v. *Brodsky*, [1936] 1 D.L.R. 578; *Rex* v. *Thorsby Traders Ltd.*, [1936] 1 D.L.R. 592.

[32] For a discussion of the constitutional validity of the delegation of legislative power, see Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, p. 37*ff*.

[33] See Book II, Sec. A, Ch. V, Pt. 2.

[34] *The Fisheries Case*, [1898] A.C. 700; *Attorney-General of British Columbia* v. *Attorney-General of Canada*, [1914] A.C. 153. The division of jurisdiction in the Province of Quebec is somewhat different from that in other provinces. See *Attorney-General of Canada* v. *Attorney-General of Quebec*, [1921] A.C. 413. For further discussion and recommendations, see Book II, Sec. A, Ch. IV, Pt. 3.

[35] For further discussion and recommendations, see Book II, Sec. A, Ch. II.

Power to regulate the financial practices of insurance companies does not belong exclusively either to the Dominion or to the provinces. The Dominion has power to regulate companies with a Dominion charter. The Dominion also exercises supervision over British and foreign insurance companies doing business in Canada. The constitutionality of this practice is not beyond doubt.[36] On the other hand, the provinces have the power to regulate the activities of all insurance companies carrying on business within the province.[37] As a result, separate and overlapping systems of Dominion and provincial supervision have grown up causing duplication of government machinery and unnecessary expense and inconvenience to insurance companies.[38]

By way of summary then, the constitution as it stands today divides the power of regulating economic activity between the provinces and the Dominion. A great deal of the business activity of today is national in its scope and cannot be easily divided into intra-provincial and extra-provincial aspects for the purpose of regulation which may seem desirable. The delegation of legislative power by a province to the Dominion and vice versa, which would make possible a unified authority without any drastic amendments of the constitution increasing the power of the Dominion, is of doubtful constitutionality. Furthermore, the present division of legislative power under the constitution throws the main burden of modern social legislation on the provinces. The support of such legislation has become one of the heaviest financial charges which governments are obliged to meet. The division of taxing powers which gives the Dominion unlimited access to sources of revenue and restricts the provinces to a limited number of sources is discussed elsewhere.[39] The scope of the provincial power of taxation as explained by Privy Council must be considered briefly here.

Interpretation of Provincial Taxing Powers

Section 92 (2) gives the provinces power to levy "direct taxation within the province". Also, under section 92 (9) "shop, saloon, tavern, auctioneer and other licences" may be imposed for the purpose of raising revenue. The scope of section 92 (9) is not yet entirely clear. It is not entirely certain whether indirect as well as direct taxation is authorized under this head nor whether licences may be imposed on any kind of business activity or only on a limited genus of which those specifically mentioned are examples.[40] It is not highly important for purposes of this chapter because the great source of provincial revenues is direct taxation under section 92 (2). But if our recommendations (made in Book II) for the transfer of taxes are implemented, it would be very important that the scope of the power to raise revenue by licence fees should be clearly defined.

In an earlier chapter the criterion of direct taxation adopted by the Privy Council was discussed.[41] The rule laid down in the case of *Bank of Toronto* v. *Lambe* in 1887 that "a direct tax is one which is demanded from the very persons who it is intended or desired should pay it" has been explained and amplified in later decisions. In substance, it has been held that a provincial legislature, in levying a tax, must intend the natural consequences of its action and, therefore, "it is the nature and general tendency of the tax and not its incidence in particular or special cases",[42] which determine whether it is a direct tax within the power of the provinces to levy. Accordingly, if in the normal course of events, the burden of the tax is likely to be shifted to others by the person who is required to pay it, the tax is indirect.

The result of the application of this rule has been almost entirely to prevent provincial taxation on industrial production and wholesale turnover and to limit the productivity of provincial taxation by restricting it, in the main, to levies on the ultimate consumer. A percentage tax on the gross revenues of mining enterprises is an indirect tax.[43] So is a tax payable by the first purchasers of fuel-oil after its manufacture or importation.[44] So also is a tax levied on sales of grain for future delivery.[45] On the other hand, a tax payable by the consumer of fuel-oil according to the quantity consumed is a direct tax.[46] Thus the familiar

[36] Dominion legislation affecting these companies was held *ultra vires* by the Privy Council in 1932. See *Attorney-General of Quebec* v. *Attorney-General of Canada* [1932] A.C. 41. Following this decision, Parliament amended the legislation and the courts have not yet passed on it in its amended form.

[37] *Attorney-General of Ontario* v. *Reciprocal Insurers*, [1924] A.C. 328.

[38] See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, Chapter II. For further discussion and recommendations, see Book II, Sec. A, Ch. IV, Pt. 4.

[39] See pp. 40-46.

[40] See Kennedy and Wells, *Law of the Taxing Power in Canada*, Chapters V and VI.

[41] See pp. 44-46.

[42] *City of Halifax* v. *Fairbanks Estate*, [1928] A.C. 117 at p. 126.

[43] *The King* v. *Caledonian Collieries Ltd.*, [1928] A.C. 358.

[44] *Attorney-General of British Columbia* v. *Canadian Pacific Railway Co.*, [1927] A.C. 934.

[45] *Attorney-General of Manitoba* v. *Attorney-General of Canada*, [1925] A.C. 561.

[46] *Attorney-General of British Columbia* v. *Kingcome Navigation Co.*, [1934] A.C. 45.

gasoline tax and the retail sales taxes found in some provinces are direct taxes within the power of the provinces because, by making the retailer the agent of the government for purposes of collection, they are deemed to be levied directly on the consumer who cannot naturally and easily shift the burden of them to others.

Fortunately for the yield of provincial taxation, the provinces have been able to go beyond taxes on consumption in the corporation taxes and succession duties. The validity of a corporation tax as a direct tax was upheld in 1887.[47] A province has power to levy a tax on any corporation which is exercising its powers within the province.[48] The so-called succession duties which, in most provinces, are, in part, probate duties levied on *property* as such and in part, legacy duties levied on the *transmission* of property from the deceased to beneficiaries are validly imposed by the provinces under certain conditions.

A probate duty is a direct tax but the provinces, being restricted to taxation "within the province", can levy only on that portion of the property of the deceased which is found within the province.[49] A legacy tax, or succession duty proper, satisfies the test of "direct taxation within the province" when levied on beneficiaries domiciled or resident in the province in respect of the transmission of property to them by virtue of the law of the province. Under certain conditions, the province, by taxing the transmission of the property to a beneficiary domiciled or resident within the province rather than the property itself, is able to impose, in substance, a tax upon "movable" property situated outside the province.[50]

Under certain circumstances, provincial succession duty can reach property in another province. With two exceptions, all the provinces do extend their succession duties to property in other provinces. At the same time, they all levy a probate duty on property situated in the province. Thus estates of deceased persons are subjected to the inequity of double tax whenever "movable" property belonging to the estate is found in more than one province. Long efforts by the provinces to eliminate double taxation of estates by agreement have broken down completely under the stress of the depression.

Disallowance of Provincial Legislation

Before concluding this review of the constitution as it works today, it is necessary to refer to the present status of the federal power of disallowing provincial statutes. Although the scope of this power given by the British North America Act is legally unlimited, except as to time, it has been recognized from the beginning that it should be used with circumspection and in accordance with some guiding principles. The principles relied on by the Dominion Government in the exercise of disallowance have varied from time to time and it is, therefore, impossible to state them with precision. There has been no such consistent and unbroken practice as would be necessary to establish a constitutional, or conventional, limitation on the exercise of the power. There is reason for thinking that it will not again be used as freely as it was during the first thirty years of Confederation but this cannot be stated with finality.

As we have remarked earlier,[51] the Dominion made very extensive use of the power of disallowance between 1867 and 1896. Not only was provincial legislation disallowed on the grounds that it was *ultra vires* or in conflict with Imperial or Dominion interests or policies. Provincial legislation might also be struck down on a ground which had great potential scope, namely, that it was inequitable and unjust. From 1896 to 1911, the Dominion Government consistently disavowed this last ground as a sufficient reason for exercise of the power. After 1911, there was a tendency to reaffirm the propriety of disallowing provincial legislation which the Dominion Government thought to be inequitable and unjust but this ground was actually relied upon in two cases only, arising in 1918 and 1922.

The power of disallowance was in complete abeyance from 1924 until 1937 when it was used against a number of Alberta statutes. Again in 1938 and in 1939, Alberta legislation was disallowed. Apart from showing that the power of disallowance has not become generally obsolete, the recent use of it does not throw any new light on its scope. Most of the eight Alberta statutes disallowed since 1937 were invasions of the federal field of legislation, conflicting with the interests and policies of the Dominion. However, among the reasons given for disallowance of two of these statutes, specific

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[47] *Bank of Toronto* v. *Lambe*, (1887) 12 A.C. 575.

[48] Kennedy and Wells, *Law of the Taxing Power in Canada*, pp. 66-78.

[49] *Rex* v. *Lovitt*, [1912] A.C. 212.

[50] An exact statement of the constitutional power of the provinces to levy succession (i.e. legacy) duties would require a preliminary examination of other branches of the law and a lengthy discussion which is not necessary for present purposes. The authoritative statement of the law is to be found in *Provincial Treasurer of Alberta* v. *Kerr*, [1933] A.C. 710. See Falconbridge, "Administration and Succession in the Conflict of Laws", [1934] 12 *Canadian Bar Review*, 67 at pp. 70-79 for a clear statement of the position.

[51] See p. 49.

reference was made to the injustice of the confiscations which they proposed and to their discriminatory character.

Thus it is quite impossible to regard disallowance on grounds of inequity and injustice as obsolete.[52] It is true that in declining to disallow the so-called Padlock Law of Quebec in 1938 the Government disclaimed any intention to review the policy of provincial legislatures acting within their own field of competence. It is also true that in the Alberta cases, the distinct ground of interference with Dominion policy and interests was available in each case and relied on. But the only inference to be drawn from the recital of the unjust, confiscatory and discriminatory character of legislation is that these qualities are relevant to the use of the power. Nevertheless, the whole trend indicates a lessening use of the power. Up to 1900, 72 provincial acts were disallowed while only 35 have been disallowed since that time.[53] It seems unlikely that disallowance on grounds of inequity and injustice will ever resume the importance it had prior to 1896.

It must be remembered also that in 1867, the world had had little experience of widespread democratic suffrage and much thought was expended on finding ways to prevent legislatures from abusing their powers. In that temper of affairs, whatever may have been the special reasons for inserting the power in the Canadian constitution, there is little wonder that it was extensively exercised. As time went on, confidence in the self-restraint of democratic legislatures increased and willingness to accept their measures with resignation also grew. In other words, the principle of legislative sovereignty is more fully accepted now than it was in 1867. The decisions of the Privy Council that the provincial legislatures are sovereign in their own sphere have operated to secure for them also the benefit of this acceptance. Consequently, the trend towards a narrower use of the power is likely to be sustained, although it is impossible to say that a different policy would not be adopted in special circumstances.

Difficulties of Divided Jurisdiction

At two points in particular, the division of legislative powers has led to attempts at close co-operation between the Dominion and the provinces. First, where the financial resources of the provincial governments are not commensurate with their legislative powers and consequent responsibilities for maintaining desired social services, the Dominion has made money grants to the provinces to assist in the maintenance of such services. Hoping to ensure the nation-wide maintenance of certain minimum standards in the assisted services, the Dominion imposes certain conditions on the grant and conducts a periodic inspection of the service given by the province. Hoping to hold the provinces to careful stewardship of funds which they do not themselves raise, the Dominion supplements its inspection activities with a detailed audit of provincial expenditures. Agreements as to the conditions on which the provinces are to undertake and the Dominion is to assist such services must be made at the political level. Federal officials are constantly investigating specific activities of provincial officials at the administrative level. Disagreements at either level may prejudice Dominion-provincial relations.

Second, in the field of economic regulation, where legislative power is divided, the Dominion and the provinces have made some attempts at co-operation, particularly in establishing nation-wide regulations for the grading of agricultural products. At first a device was used which, in substance, amounted to a delegation of power by the provinces to the Dominion enabling the Dominion to impose grading regulations on all transactions. However, after doubts arose as to the constitutionality of this practice, the provinces began to meet the problem by enacting the Dominion grades and regulations as provincial legislation and appointing Dominion inspectors and officials to act as provincial officials. Whereas the device of delegation was a very simple arrangement for unifying the administration of grading regulations in the hands of a single government, the new method involves the continuous co-operation of ten legislatures and ten governments in joint administration, making necessary a higher degree of sustained harmony and agreement.

These co-operative ventures are opening a new chapter in Dominion-provincial relations. A certain minimum of co-operation is always necessary if separate governments are to share in governing the same area and the same people. The original purpose of the constitution was to set up a sharp division of powers enabling each government to manage separately without interference the affairs allotted to it and to reduce all intergovernmental difficulties to a question of power and legal competence. Because different governments were

[52] In the reference *re Power of Disallowance and Power of Reservation*, [1939] 2 D.L.R. 8, the Supreme Court of Canada held that the only limitation was the time limit fixed by the British North America Act.

[53] *Memorandum on Dominion Power of Disallowance of Provincial Legislation*, Department of Justice, Ottawa, 1937.

likely to disagree from time to time about the extent of their respective powers, such questions are always referred to the courts for their final determination as independent and impartial bodies. The co-operation required between governments in these circumstances was mainly of a negative character; each should abstain from interfering with the others.

But Dominion and provincial governments are now embarked on the joint administration of projects which require positive and constructive co-operation if they are to be carried out efficiently. Two separate governments, neither one of which has any authority over the other, must agree on objectives, on the means of reaching them, and on the daily application of these means to new situations. However, there are always a number of issues on which the interests of the Dominion and those of the separate provinces do not run side by side. These differences in interest lead to disagreements which cannot be solved by appeals to the courts because they do not involve questions of formal constitutional power at all. They are disagreements about matters which the constitution intended that the appropriate government should handle separately in its own way.

Accordingly, if the co-operative projects are to be continued, the governments involved must be their own arbitrators. Arbitration conducted solely by the interested parties leads to delay and sometimes to deadlock which is ruinous to administrative efficiency. It always leads in the end to a compromise. While compromise is inherent in the political process, it is rarely conducive to good administration. The evolution of political policies within the framework of the constitution is leading to joint activity between the Dominion and the provinces. This contrasts sharply with the original conception of federalism as a clear-cut division of powers to be exercised separately, and experience indicates that it is injurious both to sound public finance and to efficient administration. The problems raised by joint administration of activities where jurisdiction is divided between the provinces and Dominion may now be pointed out. The first step in any scheme of co-operation must generally be taken by the legislatures concerned. As indicated above, the divided legislative powers over the subject-matter in question could be pooled by one legislature delegating its share of power to the other if the constitutionality of such an expedient had not been rendered doubtful by the courts.[54] If it were constitutionally possible and the province or Dominion, as the case may be, were willing to delegate its powers in the specific instance, the act of delegation would complete the co-operation required. The legislature receiving the powers could then establish its regulations and provide for their enforcement just as if the entire matter had originally been within its jurisdiction. In such a case, no joint administration by province and Dominion would be involved and as long as the legislature delegating its powers was satisfied with the results obtained, through vicarious use of its powers, no further action by it would be required.

In the past, the Dominion and provincial legislatures have had no serious difficulty in agreeing on this kind of co-operation. Nation-wide schemes for the compulsory grading of natural products under the administration of the Dominion Government were set up and the provinces purported to extend the Dominion Industrial Disputes Investigation Act to disputes entirely within the jurisdiction of the provinces by essentially similar devices. The administration of the legislation was placed in the hands of a single government[55] and the difficulty arising out of the division of legislative power over the subject matter was surmounted. The constitutionality of this procedure was, however, challenged by the courts in 1935. As a result, the provinces have begun to abandon this method in favour of a more complicated one which escapes the constitutional difficulty but which involves joint administration. The new device requires that the province should enact legislation in substantially identical terms with that of the Dominion but covering intra-provincial as distinct from inter-provincial and export transactions. To be specific, in legislation providing for the compulsory grading of natural products, the province enacts the Dominion grades and regulations for enforcement and then appoints the Dominion graders and inspectors as provincial officials to enforce the provincial as well as the federal legislation.[56]

Close and continuous co-operation is necessary for success under this device. Any needed revision in the detailed regulations or definition of grades must be made by both the provincial and Dominion authorities concerned. They must be able to agree on the need for change and the exact nature of the change required. Moreover, the graders and

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[54] *Rex* v. *Zaslavsky*, [1935] 3 D.L.R. 788.

[55] The extent and nature of these co-operative schemes are discussed in Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 13-16.

[56] *Ibid.*, pp. 20-21.

inspectors are now subject to the control of two masters, the Dominion and provincial departments concerned. The intention, of course, is to leave the initiative and the general control of administration of grading legislation to the Dominion and thus far in the limited experience of the new device, this has been the practice. However, it can only be a matter of time until it is discovered that the principles of responsible government are being flouted when provincial legislation is administered by officials who get all their instructions from Ottawa. Administration will then become joint in substance as well as in form.[57]

Thus far, activities jointly administered by the Dominion and a province have not been of any significant magnitude or duration in Canada. As already remarked, however, the present division of legislative power and the present trend towards greater governmental regulation are rapidly leading in that direction. Although direct Canadian experience of joint administration is not available for assessing its probable efficiency, an appeal can be made to twenty years of experience in the administration of conditional grants in Canada. It has already been pointed out that, in the conditional grants made by the Dominion to the provinces to assist specific services, the Dominion attempts, by supervision and inspection of the provincial administration, to ensure that the grant is being properly applied to the purposes for which it was given. This involves a form of co-operation approaching joint administration and raises most of the problems involved in it. Before considering the manner in which conditional grants have worked in Canada, it is important to state some general considerations bearing upon all co-operative efforts in administration by separate governments.

It is clear that failure of Dominion and provincial government departments to pull together in such co-operative ventures will have disastrous effects upon administration. The purpose of all administration, whether in government departments or in private enterprise, is to get something done, to unify the efforts of the personnel in reaching objectives laid down beforehand. One of the principal differences between government and business is that the objectives and policy of government, in democratic states, at any rate, are generally arrived at as a result of bargaining and compromise among a wide variety of interests concerned. But once a policy is agreed upon, it is a maxim of all good administration that concerted effort in pursuit of the policy should not be frustrated by a multitude of counsel on the best means of arriving at it.

In business, unity of effort is secured by having a single manager responsible for administration as a whole. The Constitution of the United States aimed to reach the same result by concentrating all executive authority in the hands of the President. In the cabinet system of government, the conventions requiring unanimity and imposing collective responsibility are designed to secure a similar co-ordination of all administrative action.

Where the Dominion and the provinces co-operate in the execution of a single policy, there is no single authority which can impose its will and decide what daily action shall be taken in pursuit of objectives. The Dominion and the provinces occupy exclusive spheres of power in which no one can over-ride the others. If unity and harmony of administration are to be maintained, it must be through voluntary agreement between Dominion and provincial personnel on the best means of advancing the policy. And this agreement must be reached without delay and without serious compromise watering down the vigour of the measures employed.

It is one thing to get a legislature willing, at a single moment of time, to delegate some portion of its powers. Once the act of delegation is complete, it is not likely to reconsider its action until administration by the authority to whom the power was delegated becomes highly unsatisfactory. It is a quite different matter, however, to get sustained unanimity on the minutiae of administration from day to day. There are two main reasons for thinking it likely to break down from time to time.

It is no criticism of higher government officials to say that they generally like to extend the sphere of their authority. Like everyone else, the energetic official must try to express his personality in his work. He must try to prove the correctness of his ideas by putting them into practice and, in this way, prove himself to his superiors. Quite naturally, he wants credit for successful administration and he, therefore, cannot acquiesce in methods and practices which he thinks are prejudicial to it. In the nature of things, there are forces making for rivalry between Dominion and provincial officials who are co-operating in joint administration. Honest differences of opinion quite unconnected with personal ambitions are often sufficient to bring them into disagreement. Sooner or later, the incompatibility of their ideas or their ambitions are likely to lead to different views on

[57] A number of the difficulties which may be expected to attend the use of this device are set out in Corry, *op. cit.*, pp. 22-30.

administration. Such rivalries and differences of opinion have prejudiced Dominion-provincial co-operation in many instances in the past. They are to be found between officials within a single government where it is only the unified control of administration in the hands of the cabinet which prevents them from seriously impeding administration. Officials testify to their existence by saying that success in Dominion-provincial co-operation in administration depends entirely upon "personalities".[59]

Secondly, in joint administration the officials in the provincial department concerned are responsible through the minister to the provincial legislature, while the federal department is likewise responsible to Parliament. Politics and administration are closely linked by the cabinet system. The Government of the Dominion and the government of a province, as is well known, may be at odds over some question of policy. On occasion there are genuine conflicts of interest between the Dominion as a whole and one or more provinces. Moreover, where active administration affects the interests of particular persons or groups, representations are made by them to the government of the day, which is sometimes constrained, as a result, to intervene in administration on political grounds. Thus there will be a tendency for joint administration to get entangled in political issues. Where both Dominion and provincial politicians have access to administration, there will be constant danger of Dominion-provincial political friction being transmitted to areas of joint administration.[60]

There is no occasion to be critical of political differences between the Dominion and a particular province. It is the duty of a provincial legislature and government to pursue the interests of the province as they conceive them to be, just as it is the duty of Parliament and the Dominion Government to push forward what they believe to be the national interest. These apparent conflicts of interest can scarcely be avoided. But they should be fought out in the political arena and not permitted to engage one another in the sphere of administration where they will destroy vigour and efficiency.

In the United States the cabinet system of government is not used and members of the legislature cannot intervene in daily administration. Thus administration is, in a considerable measure, insulated from politics. Accordingly, joint administration of projects by federal and state governments escapes one of the serious difficulties to which it is exposed in Canada. It is dangerous therefore to argue from experience in this field in the United States.

These general considerations do not apply with equal force to all kinds of joint activity. In activities which can be largely reduced to a number of routine operations and which do not have to wrestle constantly with new situations and new problems, the danger of differences between officials is considerably less. The same is true of activities which consist mainly in the application of scientific standards. To some extent, the discipline of science compensates for the lack of a discipline imposed by a single superior and the recondite nature of the problems which arise tends to withdraw the activity from the intrusion of political differences between the provinces and the Dominion.

Limitations of Conditional Grants

On the whole, however, these general considerations suggest that joint administration by Dominion and provinces is not likely to be very satisfactory. The history of the administration of conditional grants in Canada points in the same direction. From 1912 on, the Dominion has made grants of money to the provinces for specific purposes on specified conditions. Grants for assisting agricultural instruction, highway development, technical education and control of venereal disease have expired and have not been renewed. Grants for employment offices, old age pensions and unemployment relief are still being made. The activities being assisted are in each case within the constitutional power of the provinces and accordingly they are administered primarily by the provinces. As indicated earlier, the Dominion agrees to give financial aid to a provincial service provided the province spends equivalent or specified sums on it and maintains certain standards in the service rendered. Thus it is necessary for the Dominion and the province to agree upon the standard and the means of reaching it. The agreement is embodied in a set of regulations which are to govern administration and the claim of the province to Dominion financial assistance depends on the observance of these regulations. In an attempt to ensure careful application and substantial observance of the regulations, the Dominion Government audits provincial expenditures on the assisted service and, where feasible, measures performance against the standard by supervision and inspection.[61]

[59] See Corry, *op. cit.*, pp. 9-10.

[60] *Ibid.*, pp. 17-18, 34-35.

[61] See Corry, *op. cit.*, pp. 28-36, for a discussion of the administration of conditional grants.

Such administration is, in a sense, joint. Dominion auditors and inspectors check provincial accounts and the actions of provincial officials, while provincial officials are obliged to get the approval of federal officials if there is to be no interruption in payments of the federal grant. Disagreements between the two sets of officials involved cause delay and confusion and lower the efficiency of administration. We are convinced that, on the whole, the administration of the services assisted by these conditional grants has fallen far short of reasonably good administration. The basic reasons for this failure are the two set out above in general criticism of joint administration.

To decide whether particular payments have been properly made or whether provincial performance comes up to the agreed standard, it is necessary to interpret the regulations which define the conditions on which federal assistance is granted. Dominion and provincial officials frequently disagree about the meaning of the regulations. General rules are never entirely clear in their application to particular cases and most of the disagreements are genuine honest differences of opinion as to how the activity should be carried on in cases where the regulations are not entirely clear. It is true that the disagreements arise in a relatively few cases but since there is no single superior authority to resolve them, they are enough to cause delay, and may generate friction which spreads through the administration, and generally reduces efficiency.

The difficulty is that in many of the activities assisted by conditional grants it is impossible to find a clear-cut standard which can be applied automatically in measuring performance. Really objective criteria are hard to find in human affairs and where the measuring-rod cannot be applied automatically, it leaves room for difference of opinion.[62] It is inevitable that federal inspecting and auditing officials should be primarily concerned with protecting the Dominion treasury while provincial officials engaged in active administration of the service are concerned with seeing that it meets what they conceive to be the needs for which it was established. Where there is room for difference of opinion, this difference in interest and purpose causes disagreements to emerge.

Federal officials cannot insist directly upon their interpretation of the regulations by giving orders to provincial officials in the field. Provincial officials must take their orders from the provincial government and not from federal auditors and inspectors. Thus disagreements in the field are referred back to higher officials and ministers in Ottawa and in the provincial capitals, and questions of administration become the subject of diplomatic interchange between governments, involving long delays in their settlement.[63]

When administrative questions rise to the political level, they tend to become entangled in political issues and to be treated as such. Nowadays Dominion and provincial policy impinge upon one another at many points. When, as a result of this fact, sharp differences emerge between the Dominion and a province, there is grave danger that the difficulties of joint administration will be intensified. The intrusion of politics in administration is always unfortunate but it is doubly so when a single government activity or service is disturbed by both federal and provincial politics.

In pointing generally to the difficulties in the administration of conditional grants, there is danger of creating false impressions. It must be emphasized that the exasperations noted are not found in all provinces nor at all times. If they were, conditional grants would never have survived their launching. But they occur with sufficient frequency to cause waste, friction and delay. Nor are they due to the perversity of officials and politicians. The federal scheme of government was devised precisely because of the lack of complete identity of interest between the whole and the component parts. Where differences of interest exist they become manifest simply through officials and politicians doing their duty. If these differences cut across fields of co-operative activity, they inevitably have a prejudicial effect.

Those who favour conditional grants as a means of overcoming constitutional difficulties are aware of the objection frequently made that governments which spend public money ought to be fixed with full responsibility of raising it. They argue that this objection is overcome and adequate control over provincial administration secured in two ways. In the first place, the grant is made for a particular purpose and the Dominion can define exactly what that purpose is. Then by supervision and inspection, it can determine whether provincial administration complies with the terms of the grant. If not, disallowances and deductions from the grant can be made as a penalty and a warning for the future. Secondly, if this sanction is not effective, the entire grant may be withheld until defects are remedied.

[62] *Ibid.*, pp. 31-33.

[63] *Ibid.*, p. 33.

This argument ignores certain stubborn difficulties. In the first place, we have already pointed out that in many of the services assisted by federal grants, it is impossible to devise exact standards for measuring performance. Opinions differ as to what amounts to an earning of the grant and disputes arise. Federal auditors may disallow particular provincial expenditures as not being authorized by the regulations. Because there is generally room for difference of opinion, the province does not normally acquiesce in such action. In resisting a disallowance which it considers unfair, the province feels justified in bringing pressure on the Dominion. As the province is in full control of administration, there are generally a variety of expedients which it can adopt to inconvenience or prejudice the Dominion. Thus the Dominion is obliged to be very chary of disallowing expenditures except in very flagrant cases which, of course, are rare.[64]

Moreover, in most cases, federal audit of provincial expenditures cannot go to the root of the activity. To determine independently the correctness of all provincial expenditures on an aided activity, it would be necessary to duplicate provincial field staffs. Such duplication of staff cannot, of course, be contemplated and federal audit is generally confined to a review of the documents and vouchers on file. Occasional test investigations by way of sampling are made and complaints of serious abuses investigated. We do not suggest that there is any need to inquire into the honesty of provincial administration but there may be occasions when its vigilance in these assisted activities is not as rigorous as if the province itself raised all the funds expended on them. In any case, federal audit and supervision cannot go to the root of these activities.[65]

Secondly, the power of the Dominion to withdraw the grant from a province which fails to conduct its administration in accordance with the conditions imposed on the grant can rarely be exercised in practice. The Dominion assists particular provincial services because they further some important national interest. Withdrawal of the grant to discipline a province must be at the expense of the national interest in question. Furthermore, it is a very serious matter to say that a provincial administration is so bad that assistance must be withdrawn. Obviously no Dominion Government could come to that conclusion about a provincial government of its own political stripe. And a Dominion Government would scarcely dare to withdraw a grant from a provincial government of a different political stripe because of repercussions in the province affected.[66]

Thus the Dominion must always hesitate long before withdrawing a grant. The provinces know this and they are not seriously impressed by threats of such action. The power to withdraw the grant is not an effective sanction except against the most flagrant of abuses. Experience shows that where flagrant abuses have been brought to light, the province in question has hastened to correct them. In the prosaic but much more common cases, where administration is hampered by honest and reasonable differences of opinion, withdrawal of the grant as a means of resolving such differences is out of the question.

On these grounds we are satisfied that, for permanent purposes, the conditional grant, as it works under Canadian conditions, is an inherently unsatisfactory device. It may be used in some special cases and for some limited purposes, as we shall indicate later.[67] But in most activities we believe it to be more costly than if the service in question were financed by a single government. It unquestionably leads to delay and to periodic friction between Dominion and provincial governments.

The experience with conditional grants leads us to doubt whether joint administration of activities by the Dominion and a province is ever a satisfactory way of surmounting constitutional difficulties. Where legislative power over a particular subject matter is divided, it is ordinarily desirable that these powers should be pooled under the control of a single government in order to secure unified effort in administration.

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[64] See Corry, *op. cit.*, pp. 34-35.

[65] *Ibid.*, 29-31.

[66] *Ibid.*, pp. 34-35.

[67] See Book II, Sect. A, Chaps. I and III; Sect. B, Chap. V.

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REPORT OF THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BOOK II

RECOMMENDATIONS

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REPORT
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ROYAL COMMISSION
ON
DOMINION-PROVINCIAL RELATIONS

BOOK II

RECOMMENDATIONS

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

Dr. Joseph Sirois, Chairman

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ERRATA

P. 43, Col. 2. line 1, "judicial officers" should read "judges of the superior courts."
P. 93, Col. 2. line 37, insert p. 82.

CITATIONS

For brevity in footnotes references to Exhibits filed with the Commission are cited *Ex.* with the number of the exhibit following, (see Book III, p. 209, for list of Exhibits); references to *Report of Proceedings* are cited *Ev.*; and Provincial Briefs are usually referred to as *Brief* with the name of the Province following.

For convenience we have kept our practical recommendations and the immediate reasons for them separate from the extensive historical survey which our instructions directed us to make. The historical survey, together with analysis of the present economic, public finance and constitutional situation is set out in Book I. The general situation disclosed in the first book makes necessary, in our opinion, the recommendations concerning the reallocation of the burdens of government between the Dominion and the provinces which we make in the present volume (Book II). These recommendations are made with a view to adapting the Canadian federal system to meet the stresses and strains that have developed during the seventy years which have elapsed since it was devised and so enabling national unity to be maintained. Book III includes relevant documents, summaries of the finances of all Canadian governments, and statistical statements illustrating in detail the financial recommendations made in Book II. But it must be emphasized that all three volumes, though bound separately for purposes of convenience, are closely inter-related parts of a single report.

In the course of our work we have come to appreciate as never before the achievements of the Fathers of Confederation. Not only did they devise an instrument of government which has successfully withstood the test of seventy years of rapid and in large part quite unpredictable change, but they secured assent to the adoption of this instrument under circumstances which, in the minds of some, have given it the same sort of sanctity that the most solemn treaty might possess. By their achievements they laid the foundations of national unity and of the federal system, both of which our instructions enjoin us to respect. It is our hope, and we venture to say our confident expectation, that they accomplished these great things without laying on future generations the dead hand of the past, and that they transmitted to us a constitution capable of development, not only through judicial interpretation but through amendment as well to meet the new situations and problems which were bound to arise incidental to the vast and unforeseeable changes which lay before the people of Canada seventy years ago.

Canadians are so proudly conscious of the national unity which they have achieved, and so respectful of the federal system that has made this unity possible that there may be some danger of their thinking of national unity and of the federal system in the abstract as having some special merits which make them desirable in themselves. We have endeavoured to keep before us at all times the goal of human welfare which should determine the character both of political and economic systems. We are fully alive to the importance of maintaining, and of expanding as rapidly as possible, the national income[1] which is woefully inadequate for the standards of well-being which Canadians have come to adopt. It is this need for a larger national income which has governed us in the recommendations which we have made for simplifying our financial system, for carrying as economically as possible the great burden of public debt, for co-operation in the direction of future governmental investment through borrowing, and for eliminating those features of our fiscal system which involve a high cost of tax compliance or which have a marked tendency to check investment and so to reduce employment.

But it is not merely an expansion of the national income which is needed. If welfare is to be achieved the national income must be better distributed and a greater measure of social and economic security must be provided for those in low income groups. We have not, of course, attempted to lay down a pattern for social legislation in Canada, but we have, in accordance with our instructions endeavoured to clear the way for the sort of legislation which seems probable in the future by making recommendations concerning the responsibility for enacting or withholding it.

The problem of the prevention of unemployment, and in so far as it cannot be prevented, of the relief of its victims, is of outstanding importance both as regards the size of the national income and as regards its distribution. In seeking the highest possible national income we must seek conditions under which full employment of the whole labour force of the nation will occur, and the

[1] The national income of Canada means the sum of the individual incomes of Canadians. It must equal the wealth produced in Canada in a given period, *plus* payments received from abroad, *minus* payments made outside Canada. Both the magnitude and the regional distribution of the Canadian national income have been carefully estimated in a study made for this Commission, and published as Appendix 4.

distribution of the national income is most satisfactory when the incomes of the able-bodied take the form of adequate wages for work done.

There is a second aspect of the distribution of the national income which is of great importance in a federal system, and of particular importance in Canada. The unequal distribution of the national income as between the people of different regions may excite feelings quite as dangerous to national unity as those aroused by gross inequalities between different income groups. The provision of a national minimum standard of social services in Canada cannot (without complete centralization of all social services) be divorced from the assurance to every government of Canada of the revenues necessary for the adequate performance of its recognized functions. This assurance, which the Fathers of Confederation were able to give by means of a system of subsidies and debt allowances financed by taxation that was national in character, is infinitely harder to give now that the recognized functions of provincial governments have become far larger than they were in 1867. We have attempted to compute what the financial balance of each provincial government (and its municipalities) would be with taxation at the national average and after making provision for services of at least national average quality.

In giving this special prominence to economic aims we have not been forgetful that any nation worthy of the name will have other and, in a sense, higher aims as well. Economic aims have of course a moral aspect, and crusading zeal to assail evil social conditions, high rates of sickness and death, poverty, illiteracy and bad housing, cannot be considered as crudely materialistic. But these higher aims are in no danger of conflicting with economic aims unless, of course, they are pursued with a reckless disregard for the necessity of maintaining the national income which is in the long run essential for their achievement.

But there are other aims less closely intertwined with economic well-being. In Canada, whether we speak of personal freedom and democracy, or of preserving the healthy mean between too great liberty for the individual and too great authority for the state, we reach much the same conclusions as to one of the higher aims of the Canadian people. None of these higher aims are, in our opinion, inconsistent with the economic aims which we have discussed. We believe that the proposals which we make in this Report respect economic and moral aims alike. We make important recommendations for adjustments in the distribution of governmental burdens, and in sources of revenue necessary to meet them, but these adjustments will leave untouched the arrangements which during the last seventy years have preserved complete provincial liberty of action in spheres which are primarily cultural and social. Indeed this liberty of action will be assured even better than it is today, as the provinces will be freed from the pressure which is apt to be exerted upon them by demands for this or that social service which, it is said, can be financed only with assistance from the Dominion that would of necessity involve some supervision by the Dominion.

Some of the recommendations which we make throughout the Report may require amendments to the British North America Act for their implementation. Others might not, although amendment of the Act might be the most satisfactory method of implementing them. We make no attempt to deal with the question of how amendment to the British North America Act should be brought about nor do we attempt to draft amendments, for we feel that once the general will to seek amendment exists these matters can be dealt with more effectively by others than by us.

We realize that at first sight our proposals as a whole may appear to involve bold departures from former practices. We have asked ourselves anxiously whether our proposals are politically impossible. If we are hopeful that they are not politically impossible it is because we think that when our Report is considered as a whole the people of Canada will see that any lesser departure might lead to disastrous consequences. The present peril is serious and cannot be allowed to grow worse.

We plead most earnestly that our proposals should not be considered one by one in isolation, although we have done our best so to frame them as to withstand even this test. But we have attempted to integrate them in a comprehensive plan of a constructive character, dependent for its harmony on the observance of the general principles which we have set out, and designed to enable Canada to withstand the stresses and strains of today and tomorrow without undue peril either to reasonable national unity or to legitimate provincial autonomy.

SECTION A

THE ALLOCATION OF JURISDICTION

CHAPTER

I. The Social Services
II. Labour Legislation
III. Education
IV. The Regulation of Certain Economic Activities
V. Facilities for Dominion-Provincial Co-operation

SECTION A
THE ALLOCATION OF JURISDICTION

In this section of the Report the Commission makes certain recommendations with respect to the allocation of jurisdiction between the Dominion and the provinces with a view to promoting economy and efficiency in government. The Commission has constantly kept in mind throughout this section the qualification embodied in its terms of reference that its opinion on these matters should be expressed "subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity". It has also kept in mind the necessity for "a balanced relationship between the financial powers and the obligations and functions of each governing body". Its recommendations in the present section and those in the financial section which follows are thus intimately related. But the Commission believes that its recommendations on the allocation of jurisdiction are justified on their merits; that they will tend to provide efficiency and economy in government; that they are in harmony with national needs and the promotion of national unity; and that they will tend to make the federal system work with less friction.

The Commission does not consider it necessary or desirable to review the whole field of legislative jurisdiction as distributed by the British North America Act. It has confined its attention to those matters in which the present allocation of jurisdiction appeared, either from its own researches or from its public hearings, to be unsatisfactory. The topics which call for discussion are surprisingly few when it is considered that the present distribution of legislative powers was made over seventy years ago when British North America was still in the pre-industrial stage of development and when the prevailing views of the functions of the state were far different from those of today. The topics which call for discussion are the great spending functions of social services and education and certain powers having to do with the regulation of economic activities. In certain cases, despite dissatisfaction voiced in the Commission's hearings about the existing allocation of jurisdiction, the Commission concludes that there are compelling reasons for leaving the present situation undisturbed, the more so if the Commission's financial proposals are implemented. In other matters the Commission concludes that there are stronger reasons for a change in jurisdiction. In the present section it has been found convenient to bring together all recommendations relating to jurisdiction (other than in the matter of taxation) whether a change in jurisdiction or the continuance of the present jurisdiction is recommended.[1]

In devising the most appropriate allocation of jurisdiction in the light of present conditions and probable future developments, the Commission has been guided by the following considerations:—

(*a*) the presumption that existing constitutional arrangements should not be disturbed except for compelling reasons;

(*b*) existence of pronounced differences in social philosophy between different regions in Canada;

(*c*) the need for economy and efficiency in administration;

(*d*) the suitability of different jurisdictions for carrying the financial burdens involved.

In applying these considerations we shall have to recommend that certain functions now under the jurisdiction of the provinces should be allocated to the Dominion on grounds of the need for uniformity throughout Canada, or of the economy incidental to unified administration, or of the unequal financial ability of provinces to perform them. But in so doing we carefully respect the federal system. We aim throughout to safeguard the autonomy of the provinces, and to ensure to each province the ability to decide issues of peculiar importance to itself. We emphasize throughout this whole section the importance of limiting the transfer of jurisdiction to the Dominion to what is strictly necessary.[2] But it should be noted here that, although it may be possible to divide clearly the field of legislative power between the Dominion and the provinces, this does not of itself promote harmony between them or efficiency of administration. The division of legislative power may in fact mean division of responsibility for the performance of a governmental function inherently unitary in

[1] For recommendations on taxation see Section B, Ch. III.

[2] Attention of the Commission has been drawn to the legitimate apprehension of Quebec that the allocation of new powers to the Dominion might carry with them ancillary power likely to trench upon rights defined by the Quebec Civil Code. In so far as our recommendations are implemented by legislation, it will be the duty of the draftsmen to guard against this possibility.

character.[3] The growing complexity of our society, and the growing demands for governmental action to promote social welfare and control economic life, are compelling both the provinces and the Dominion to assume functions for the efficient performance of which they may have very inadequate jurisdiction. Control of marketing is an example. In such instances two courses are theoretically possible: either constitutional amendment to place full responsibility for the new function on one authority, or co-operation between the province and the Dominion to cover the new function by joint efforts. But the rigidity of the division of powers in a federal system is notorious, and especially so in Canada. The difficulty of amendment is often increased by the fact that the demand for undertaking the new function is likely to differ greatly as between provinces,—a fact which itself points to the need for greater flexibility in the federal system. Co-operation between the governments of a federal system may be no less difficult to achieve than constitutional amendment. But co-operation is becoming increasingly desirable, especially in those functions which tend to straddle the division of powers between the Dominion and the provinces, if provincial autonomy is to be preserved and efficiency in government at the same time achieved. We have, therefore, felt it necessary to include as a final chapter to this section discussion of certain devices to promote flexibility in the federal system and to facilitate co-operation between governments.

* * * *

The Civil Service and the Reallocation of Functions.—The Commission is fully alive to the fact that there are some interests which will be affected by any substantial reallocation of the functions of government. Important among these interests are those of members of the Dominion and provincial civil services whose present position and future prospects may be jeopardized. For instance, a change in the responsibility for the administration of unemployment relief, a change in the machinery for imposing or collecting certain tax revenues, or the transfer of the responsibility for performing any of the functions of government, would affect the position of the civil servants who now administer these functions. While the personal fortunes or ambitions of civil servants should not be allowed to stand in the way of desirable changes we feel that every effort should be made to find suitable positions for efficient servants of the state who may be deprived of their present employment by the changes which we recommend. There may occasionally be a reduction in the number of civil servants who are required, but in most cases the same or similar functions will continue to be performed by one or other unit of government and we feel that in protecting the legitimate interests of efficient civil servants each unit of government will be promoting its own interests as well as securing the services of able and experienced men and women.

We do not wish to leave our treatment of this question in general terms. In cases in which a function is transferred from the province to the Dominion we recommend that the rules of the Dominion Civil Service Commission as to qualifications and examinations should (subject, perhaps, to certain necessary exceptions) be so modified as to facilitate the absorption of provincial officials into the federal service. This recommendation is particularly important in respect to provincial officials of the Province of Quebec. The performance of functions of the Dominion Government in Quebec should always be in the hands of officials with knowledge both of the French language and of local conditions and customs in the Province; and if any functions now performed by a province are taken over by the Dominion common sense dictates that generally speaking the men who perform them now should continue to do so.

It seems to us obvious that the selection for the performance of Dominion functions of officials who are familiar with the language and local conditions and customs, of the groups of citizens with whom they have to deal is important both for efficiency of service and for fostering a national viewpoint.

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[3] This is the situation in the administration of justice. Provincial courts are constituted and their procedure in civil matters is regulated by the province; judges are appointed and paid by the Dominion, and the Dominion Parliament regulates criminal procedure and has constituted a high court of appeal (the Supreme Court of Canada) from provincial courts.

Chapter I

THE SOCIAL SERVICES[1]

In 1937 the total expenditures of all governments in Canada on social welfare, exclusive of education and war pensions and after-care, exceeded $250 million. This was more than one-fourth of the total expenditures of all governments (Dominion, provincial and municipal) on current account. In 1867 the total welfare expenditures of all governments was about $1 million, and even as late as 1921 the total was little more than $36 million. Although the total reached $83 million in 1930, the greatest increase occurred in the next five years when the expenditure was tripled; it has remained around this level ever since.[2] This enormous increase in expenditures for functions hitherto regarded as almost wholly the responsibility of the provinces (and their municipalities) has been primarily responsible for the breakdown in the fiscal independence of many municipalities and certain provinces during the past decade. Nor can the breakdown be considered merely a temporary phenomenon. Although "relief" costs may be cut with the return of "better times", the rise of other welfare expenditures and their probable increase in the near future, and the contingency of recurring crises in employment, has rendered precarious the fiscal position of many municipalities and all provinces. A redistribution of the burdens of social welfare has thus become of paramount importance.

We shall first examine the factors which have made the present division of social welfare functions and responsibilities untenable, and then set forth our recommendations.

1. The Disparity between Jurisdiction and Financial Resources

The Existing Division of Jurisdiction.—The British North America Act does not impose any obligations to provide welfare services either upon the provinces or upon the Dominion; it merely divides the field of legislative power. With an exception for the criminal law (which falls within the legislative jurisdiction of the Dominion but is administered by the provinces) the underlying assumption of the Act is that legislative jurisdiction carries with it complete discretion as to policy, complete financial responsibility, and complete control of administration. But the Act is far from clear in the matter of jurisdiction over social welfare, and judicial interpretation has failed to remove obscurities. In the main it has been assumed that social welfare functions fall to the province by implication from its express and exclusive jurisdiction over "Asylums, Charities, and Eleemosynary Institutions in and for the Province", "Property and Civil Rights in the Province", "Municipal Institutions in the Province", and "Generally all Matters of a merely local or private Nature in the Province". On the other hand, it has been assumed that the Dominion's exclusive jurisdiction over Indians, militia and defence, and over certain phases of public health (which will be discussed later), and its concurrent jurisdiction with the provinces over immigration, imply a limited jurisdiction for welfare purposes over the special groups involved. But in general, provincial jurisdiction over social welfare and hence responsibility for policy and finance, has been deemed a basic feature of the Act, and any Dominion jurisdiction merely an exception to the general rule of provincial responsibility.

Social Changes 1867-1930.—The discrepancy between this division of jurisdiction and the fiscal capacity of the provinces was not apparent at Confederation. The British North America Act was framed in an era when social welfare was a relatively minor function of government. In 1867 over 80 per cent of the population was rural, living in farm-village communities. In such a society mass unemployment and mass destitution were unknown; welfare problems consisted in caring for weak or unfortunate individuals rather than for large dependent groups. The care of the individual was a function of the family, which, because of its economic self-sufficiency, was ordinarily competent to carry the load, as well as to meet the

[1] The term "social service" has a broad and varied connotation, but for the purposes of this chapter it comprises those government activities which provide for persons unable (either because of lack of opportunity or want of capacity) to earn some or all of their recognized needs. In a broad sense, public education may also be considered a social service, but the subject is dealt with in another chapter, see p. 50.

[2] See Book III, Tables 12 and 16. For an extended discussion of relief expenditures and effect on public finance, see Book I, Ch. VI, Section on "Public Finance."

economic vicissitudes of the family group as a whole. When the immediate family group failed, relatives, neighbours, private charity, or religious organizations, could be relied on for assistance. The welfare activities of the state were limited to occasional assistance in the form of poor relief by municipal or local authorities, and to regulation of private charitable organizations.

The self-sufficiency of the family gradually declined with the progress of the industrial revolution, which had already begun in 1867, and with the development of an integrated, national economy. But the continent was undergoing an expansion unparalleled in history. The opening of the American West after the Civil War, the industrial expansion of the East, and later of the Great Lakes States, made the United States a magnet for young Canadians for sixty years after federation. The opening of the Canadian West, and the remarkable period of expansion which set in after the turn of the century, were no less important in draining off surplus population from older Canada, especially from its rural areas. The immigrants who poured into Canada during this period were predominantly young and able-bodied, accustomed for the most part to a low and precarious standard of living and expecting no assistance from the state. Thus, despite the widespread decline in family self-sufficiency, the need for state social services did not become apparent before the Great War. Public health services had been considerably expanded but the problem of indigency was still almost wholly a problem of caring for isolated individuals (the aged, the orphan, the dependent widow, the temporary unemployed). Private charitable organizations, often with religious affiliations, had developed extensively and were assuming much of the burden of carrying unemployables hitherto borne by the family. This was especially the case in Quebec where the Church has long played an important role in welfare services.[3] Municipal or county poor relief services had become general in the old provinces but they were still not costly. In an expanding economy with free land suitable for settlement and an open door for emigrants to the United States, mass unemployment was still unknown.

But by 1913 the economy had developed some serious weaknesses. The cessation of railway expansion about 1913 threatened a mass unemployment problem for the first time, especially in the over-expanded construction industry, the new steel industry, and other industries geared to railway expansion. The slack, however, was quickly taken up by the War both through enlistment and the industrial boom consequent on the War. Moreover, the agriculture which had developed in the Prairie West was of a quite different type from that of Eastern Canada; it was dependent almost wholly on external markets, and it was one-crop agriculture, subject to the whims of nature. It lacked the self-sufficiency of eastern agriculture resulting from diversification and the receipt of a large income in kind. Compared to the rural areas of the older provinces, the family and rural community of the Prairie West were far less self-reliant, far less able to care for the economically dependent in time of economic distress.

The Great War precipitated the assumption by the state of many new social functions. Widespread community efforts, both public and private, developed for the care of dependents of members of the armed forces. Mothers' allowances also began during the period. The problem of re-employment of over half a million former soldiers led to the development of provincial employment agencies, and Dominion efforts to co-ordinate these by a system of grants-in-aid. A sharp but short depression following the post-War boom created a problem of mass unemployment for the first time in Canada. The inability of local authorities to cope with it, and the fact that many of the unemployed were returned soldiers, led the Dominion to assist municipalities by small grants-in-aid. A brief interest in municipal housing, assisted by senior governments, developed. But mass unemployment was regarded as a temporary phenomenon, and no steps were taken to set up any permanent organization (other than co-ordination of provincial employment offices) for dealing with it. The Dominion also embarked on costly services for pensions, and for the rehabilitation, medical after-care of former members of the armed forces. Finally, for the first time the Dominion became interested in the provision of public health services hitherto regarded as exclusively a provincial (and municipal) matter. A Dominion Department of Health was established primarily to co-ordinate provincial health activities, and a system of grants-in-aid to the provinces for

[3] For the social welfare role of the Church in Quebec see Appendix 5—Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec.*

the suppression of venereal diseases was established.[4]

The expansion of the 1920's increased the vulnerability of the social structure, but at the same time hid the social changes. Industrialization proceeded apace, with its attendant specialization, growth of one-industry towns, and increasing numbers of wage-earners. Urbanization was increasing rapidly, and especially the growth of large metropolitan areas with their "dormitory" suburbs. Wheat production in Western Canada expanded in response to renewed European demands for wheat and the absence of Russia from the export market. Meantime provincial and municipal budgets were expanding rapidly, especially to provide motor highways and streets and greater educational facilities.

Social welfare, however, was becoming a highly significant item of public expenditure, especially in municipal and provincial budgets. As is evident from the following table the cost doubled between 1921 and 1930, the largest increases being in provincial and municipal expenditures:—

EXPENDITURES ON SOCIAL WELFARE BY ALL GOVERNMENTS

(Excluding relief and military pensions and after-care)

(Thousands of Dollars)

—	1913	1921	1926	1930
Municipalities	8,161	18,786	20,686	28,285
Provinces	4,343	12,133	18,520	27,256
Dominion	2,617	4,411	5,093	7,598
OLD AGE PENSIONS				
Provinces	—	—	—	6,132
Dominion	—	—	—	5,668
Total (excluding refunds)	15,121	35,218	43,294	72,129*

* See Book III, Table 16.

Apart from old age pensions the principal increases in provincial expenditures between 1921 and 1930 occurred in public health and hospitals, mothers' allowances, provincial institutions, and charity, the last of which more than doubled in cost between 1921 and 1930.

[4] For growth of social services in greater detail see Appendix 5—Minville, *op. cit.;* Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance;* J. A. Corry, *Growth of Government Activities Since Confederation,* (Mimeographed), Ch. VII.

With one significant exception, old age pensions, the traditional division of responsibility for public welfare was not seriously challenged during this period. The proportion of old people in the nation had increased because of a falling birth rate, the slowing down of immigration, the continuous emigration of able-bodied workers to the United States, and increased life expectancy.[5] Meantime self-sufficiency of the family group was declining. Combined with this was the indirect influence of the War. The death and permanent injury during the War of so many young able-bodied workers tended in the years following to leave to the state an increasing number of needy aged who would otherwise have been supported by their sons. The result was to increase steadily the burden of the municipalities and local governments for supporting the needy aged. Demands for old age pensions had been heard before the War, and they were renewed afterwards. The provinces with their limited tax resources hesitated, however, to embark on such a costly service. An urgent need had to be met and there had been no attempt to work out a contributory plan by which the younger people would provide for their own old age. Nor (owing to migration from province to province) could any one province have conveniently managed such a system. In 1927 the Dominion accordingly came to the aid of the provinces by offering to pay half the costs of pensions for needy aged up to a fixed maximum, the provinces to supply, and pay for, administration. The Western Provinces and Ontario quickly accepted the offer. In 1930 the Dominion's share was increased to 75 per cent to meet the case of the poorer provinces. The Maritime Provinces and Quebec shortly came under the scheme. Thus, without acquiring additional jurisdiction, the Dominion assumed heavy financial responsibilities for a costly function regarded by the Dominion and the provinces alike as a provincial responsibility. But indirectly old age pensions were a boon to municipalities since they lifted an important indigent group from municipal budgets.

[5]

CHANGES IN UPPER AGE GROUPS 1871-1931

—	1871	1911	1931
Number of persons 70 and over per 1,000 population	21·2	28·3	33·2
Number of persons 65 and over per 1,000 population	36·4	46·6	55·5

The end of the boom of the 1920's found a society profoundly altered from what it had been sixty years before. In 1871 over 80 per cent of the population was rural, but in 1931 scarcely more than 46 per cent; in 1871, 42 per cent lived on farms, but in 1931 only 26 per cent, and over one-third of those engaged in agriculture lived on the short grass plains of Western Canada where they were more vulnerable to climatic fluctuations and price changes than Eastern agriculture had ever been. In 1871 there had been only one city of 100,000 population or more and it included only 3·5 per cent of the population; in 1931, there were eight cities over 100,000 population and they included over 28 per cent of the population. While for 1871 the number of wage-earners is not known, by 1931 there were over 2,500,000, or almost two-thirds of all gainfully employed in Canada. But despite these and similar changes which indicated the development of a society highly sensitive to economic disturbances, Canada had not embarked upon an extensive program of social security similar to that of many European countries.

The economic collapse was followed immediately by mass unemployment and destitution on a scale unparalleled in Canadian history. The wage-earner thrown out of work had few reserves and no alternative source of income to cushion the shock of loss of cash income as had the village craftsman or farmer of 1867. Moreover, the United States was suddenly closed to immigration, while almost unnoticed the supply of free land suitable for agriculture had run out. The social problem was three-fold: mass unemployment of industrial workers; mass destitution in the wheat area of Western Canada due to crop failure combined with low prices; and a greatly increased number of unemployables becoming public charges because of the sudden inability of their relatives to care for them.

A detailed account of various relief measures is here unnecessary. It will be sufficient for our purposes to note the principal characteristics of the system, or lack of system, which developed for handling the relief problem.[6]

At the outset the problem was regarded as a municipal responsibility, and this assumption has coloured the whole system ever since. The burden was first undertaken by the ancient municipal machinery of poor relief, assisted by private charity. But unemployment relief and agricultural relief in Western Canada were quite different problems both in origin and in magnitude from municipal poor relief, and the machinery quickly broke down. Senior governments came to the aid of municipal and local governments by a system of short-term grants-in-aid, but the municipalities were left the responsibility of administration, including costs. All governments, however, regarded the situation as an emergency, and financial and administrative arrangements were hastily made on this assumption. Makeshift arrangements expected to be temporary have tended in the course of a decade to become permanent.

Effect of Relief on Municipal Finances.—The utter inability of the municipalities to carry the relief burden is evident from the fact that out of a grand total of expenditures of all governments on relief from 1930 to 1937 of some $965 million, the municipalities carried only some $154 million, or less than one-sixth, despite the persistent pressure upon them by senior governments. Moreover, the burden was very unevenly distributed. Unemployment was concentrated in metropolitan communities and one-industry towns, while agricultural relief was concentrated in the three Prairie Provinces, especially Saskatchewan. In 1935, for example, 53 per cent of the number on relief were concentrated in urban and metropolitan communities comprising some 32 per cent of the population, and the total direct relief costs in these communities were 75 per cent of the total for all Canada. In the same year 20·8 per cent of the total relief expenditures were incurred in the metropolitan area of Montreal which had only 9·6 per cent of the total population of Canada; 19·18 per cent were spent in the metropolitan area of Toronto which had 7·6 per cent of the total population; and 15·5 per cent in eight other Ontario urban areas with 7 per cent of the total population. The burden also often fell very unequally on different municipalities in the same region, and even within the same metropolitan community. Exclusive residential suburban municipalities escaped with virtually no additional relief burdens. Working-class municipalities, on the other hand, in many cases became completely bankrupt because of the huge load which suddenly fell upon them at the same time that real property values were shrinking and taxes on real estate were becoming increasingly difficult to collect.[7] Many rural municipalities escaped any additional burdens.

[6] For extended account see Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance.*

[7] *E.g.*, Ex. 21, Brief, Rural Municipality of St. James, Man.; Ex. 22, Brief, Rural Municipality of East Kildonan, Man.; Ex. 23, Brief, Rural Municipality of West Kildonan, Man.

On the other hand, many of the rural municipalities of Saskatchewan at times had close to 100 per cent of their total population on relief.[8] Between 1931 and 1937 many municipalities, especially in Western Canada, were quite unable to carry their allotted shares of the load and senior governments were compelled to come to their aid by making the terms of grants easier, or by means of loans, or in both ways.

Even in cases where municipalities were able to carry their share of relief, it was often at the expense of upkeep of public works, education, and other services. Despite Dominion grants-in-aid for relief works, municipal capital expenditures fell far below normal, thereby increasing unemployment. Moreover, an undue load was frequently thrown on real property, the principal source of municipal revenues, at a time when income from real property had seriously declined and property values had been shattered. In an effort to collect back taxes many municipalities became loaded up with real property. In all municipalities where the tax burden on real estate had become unduly heavy, new construction and private enterprise were further handicapped, thereby tending to retard recovery.[9]

Effect of Relief Expenditures on Provincial Finances.—The impact of relief upon provincial finances has been dealt with in Book I, and only the more obvious effects need be pointed out here. Without Dominion aid probably no province could have financed relief. Dominion aid, however, was apportioned largely on the basis of a percentage of costs, and substantial though Dominion contributions were, this system could not prevent great differences in the relief burden as between provinces and violent fluctuations of provincial costs from year to year.

PER CAPITA COST OF TOTAL RELIEF EXPENDITURES

—	1931	1932	1933	1934	1935	1936	1937
Prince Edward Island	3.63	2.71	0.68	4.64	10.55	6.72	6.20
Nova Scotia	4.99	7.37	6.16	4.55	5.77	5.05	4.72
New Brunswick	6.29	1.21	4.51	3.16	5.61	5.68	3.35
Quebec	6.00	6.47	7.49	10.55	8.67	11.44	9.83
Ontario	6.22	9.60	9.08	16.71	14.83	10.44	7.59
Manitoba	12.26	10.40	9.95	10.53	13.81	17.14	13.65
Saskatchewan	26.04	14.15	11.00	22.61	19.99	24.35	66.35
Alberta	9.13	7.92	6.54	7.93	9.21	11.89	9.83
British Columbia	12.11	12.63	11.33	13.67	15.40	13.39	12.00

[8] Ev. p. 1308.
[9] For discussion of taxation of real property see Section B, Ch. VIII.

The staggering load, and the sharp variations as between provinces and from year to year are clearly illustrated by the following table which shows all relief expenditures made through provincial and municipal agencies as percentages of the joint provincial-municipal current revenues for the peak year 1930:—

RELIEF EXPENDITURES BY PROVINCIAL AND MUNICIPAL GOVERNMENTS AS A PERCENTAGE OF CURRENT REVENUE FOR 1930

—	1931	1932	1933	1934	1935	1936	1937
	%	%	%	%	%	%	%
Prince Edward Island	20·2	15·2	38·6	26·1	59·4	39·1	36·5
Nova Scotia	16·8	25·1	21·1	15·7	20·0	17·8	16·8
New Brunswick	21·3	4·2	15·7	11·2	20·0	20·5	12·2
Quebec	15·0	16·4	19·3	27·7	23·1	30·8	26·8
Ontario	11·1	17·4	16·9	31·6	28·4	20·1	14·7
Manitoba	24·8	21·4	20·5	21·7	28·4	35·3	28·3
Saskatchewan	57·9	31·9	24·7	50·8	44·9	54·7	150·2
Alberta	18·1	15·9	13·3	16·2	19·1	24·9	20·7
British Columbia	17·9	19·0	17·2	21·1	24·2	21·4	19·2

All relief expenditures through provincial and municipal agencies, including Dominion grants-in-aid (direct relief, relief works, and agricultural aid) are included, but relief expenditures made directly by the Dominion are not.

Efforts were made by all provinces to pare expenditures, and most noticeably in the case of the Western Provinces where other services such as education, road maintenance and conservation suffered seriously. All provinces made vigorous efforts to maintain and increase revenues by new or increased rates of taxation. Some provinces resorted to wage taxes, some to disguised forms of retail sales taxes, all increased gasoline taxes, and all increased taxes on corporations. But it was not until 1935 that total provincial tax revenues reached the level of those of 1929. Thus the provincial burden of relief during the worst years of the depression had to be met out of depleted revenues. The inevitable result was to compel the provinces to resort to deficit financing on a scale unparalleled in the history of the Dominion. During the years 1930-37 total provincial deficits on current account exceeded $300 million. The provincial share of relief during this period excluding charges to capital account of $200 million for provincial relief works, colonization and land settlement schemes, and relief advances to municipalities, amounted to more than $280 million or approximately 92 per cent of total provincial deficits on current account. The portion of provincial debt directly chargeable to relief mounted rapidly.

The combined pressure of relief and depleted revenues destroyed, temporarily at least, the credit of the four Western Provinces and they were all unable for a time to meet their respective shares of the relief burden either out of current revenues or by borrowing. In consequence, loans had to be extended by the Dominion to the provinces concerned.* In certain instances the provinces also were compelled to borrow from the Dominion the municipal share of relief and re-loan to the municipalities. This was particularly so in the case of Saskatchewan. Substantial loans and bank guarantees were also made from time to time to the Prairie Provinces to finance seed grain advances. The total of Dominion loans for relief purposes to the four Western Provinces from 1931 to 1937 was $125 million.† Large inter-governmental loans of this sort can scarcely be conducive to sound public finance either on the part of the Dominion or of the provinces concerned, however necessary they may have been under the circumstances. Repayment of inter-governmental loans in a federal system is always liable to give rise to political difficulties and serious friction, and especially so if prior collection from electors or subordinate bodies such as municipalities has to be made by the borrowing government.

The position of the Maritime Provinces and of Quebec in the later years of the depression should also be noted. These provinces, partly to provide work for unemployed, embarked upon extensive road construction programs during the later years of the period. Quebec also undertook an expensive land settlement scheme for the purpose of settling unemployed congregated in the cities. While these programs undoubtedly alleviated the problem of unemployment, the cost to the provinces concerned was very great and it tended to exhaust the credit resources of these provinces. It is impossible to assess the amount of these expenditures incurred for bona fide relief purposes as distinct from that for ordinary capital expenditures, but it is clear that the lessened credit reserves of all four Eastern Provinces have made it much more difficult for them to carry their present portions of the relief burden in the event of unemployment developing after their present capital programs on public works had been completed, or in the event of a recurrence of widespread unemployment from other causes.

(*) DOMINION LOANS TO PROVINCES FOR RELIEF PURPOSES

($000)

—	1931	1932	1933	1934	1935	1936	1937
Manitoba	1,600	3,228	803	4,053	4,682	4,621	2,959
Saskatchewan	7,000	1,734	11,314	10,141	14,245	5,978	11,604
Alberta	956	1,902	2,082	3,895	7,669	805	193
British Columbia	1,554	2,237	1,884	4,040	6,596	4,043	2,914
TOTAL	11,110	9,101	16,083	22,129	33,192	15,447	17,670
							124,732

† Not including advances of some $29 million (net) during the same period to meet maturing obligations and interest.

It is thus clear that the burden of relief has seriously strained the credit reserves of at least eight of the nine provinces, and it would appear doubtful whether they can carry indefinitely even their present shares of relief burdens.

Increased Costs of Other Welfare Services.— Moreover, while relief was by far the largest item of welfare expenditures, the costs of other social services mounted rapidly, as is indicated by the following table:—

EXPENDITURES ON SOCIAL WELFARE BY ALL GOVERNMENTS[10]

(Excluding relief and military pensions and after-care)

(Thousands of Dollars)

—	1926	1930	1937	1939
Municipalities	20,686	28,285	35,615	?
Provinces	18,520	27,256	35,569	40,976
Dominion	5,093	7,598	15,169	7,258
OLD AGE PENSIONS				
Provinces	—	6,132	10,213	10,975
Dominion	—	5,668	28,666	30,587
Total (excluding refunds)	43,294	72,129	124,383	?

The primary reason for this increase, which (apart from old age pensions) fell mainly on the provinces and the municipalities, was the decline in the capacity of the family to care for its weaker, or unfortunate members. This was especially noticeable where unemployment was most wide-

[10] Note: This table in part overlaps with the table on p. 17, but is so framed for the convenience of the reader.

spread and prolonged, the depletion of family reserves tending to throw the costs of medical attention, and support of widows, orphans, and the aged on the state. The result was to increase substantially the already over-burdened financial structures of the provinces and the municipalities.

Municipal Administration of Relief.[11]—Municipal administration of relief was far from satisfactory. Short-sighted economy and lack of experience by the municipalities in many cases led to the entrusting of administration to an inadequate and untrained personnel with the result that inspection of relief rolls was skimped, and efficiency of administration suffered. It was, indeed, a common practice to choose part of the administrative staff from the municipality's own relief rolls. In cases where relief rolls became unduly large, political pressure on local authorities often tended to cause laxity in granting relief. Hard-pressed municipalities everywhere tended to lump together employables and unemployables and to charge senior governments with contributions for the relief of both classes. In urban areas unemployment relief thus became a "catch-all" for every type of indigent which had formerly been the sole responsibility of the municipality, and the same scales of relief rates as those available for the bona fide unemployed came to be applied to unemployable groups.

One serious defect has been the complete lack of uniform relief standards. Municipalities generally have set their own standards in the amount of food, shelter, clothing, and medical care that should be allowed, and unless these appeared to be too high, the province has rarely intervened. Many smaller municipalities refused to pay relief at all, even when there was real need. Such standards as have gradually developed have emphasized immediate economy rather than adequacy, with complete disregard of long-range costs, such as the probable increase of deficiency diseases (e.g. tuberculosis), or the breakdown of the morale of the able-bodied unemployed. Standards have tended to be those of poor relief, rather than for the maintenance of the efficiency of employables.

Under municipal administration non-residents, transients, and migratory workers were neglected and their care inevitably created serious problems. In order to keep down relief costs municipalities endeavoured to avoid all responsibility for these groups. Residence qualifications were stiffened and destitute families unable to qualify for residence in a municipality were virtually left to starve except as assisted by private charity, or were shipped back to their former place of residence. The transient and the migrant in search of employment were generally treated as vagrants in the first years of the depression, and despite a change in policy whereby the Dominion has assumed a larger proportion of costs of relief for these groups, the practice everywhere has been to force them to move on. The treatment of transients, non-residents, and migrant workers throughout the period has indeed been far from humane, and has tended to reduce many able-bodied workers to a condition of unemployability. Moreover, there has been a marked tendency toward municipal protectionism in the matter of labour, as well as in relief, and toward the immobilization of labour,—tendencies likely to have serious effects on the national economy which has always depended on the free movement of labour to wherever work was available within the Dominion.

Grants-in-aid.—From the Dominion's point of view, the system of grants-in-aid has been far from satisfactory. Since the municipalities are creatures of the province, the Dominion has had perforce to deal with the province rather than directly with the municipalities. Having no direct control over municipal administration, it has been compelled to rely on advance agreements with the provinces and a post-audit of provincial expenditures. Both have been recurring sources of friction, the latter between Dominion and provincial officials, the former between governments. On the assumption that the need for relief was temporary, the Dominion has generally followed a system of short term (one or three months) agreements with the provinces. This system inevitably led to haggling over amounts and terms, and especially so when, as happened on occasion, the views of the Dominion and the provincial government differed as to policy. On the other hand, the practice of reimbursing the provinces (and through them the municipalities) for a fixed percentage of costs incurred without fixing maximum totals in advance, obviously opens the door to various abuses.[12]

[11] For description and criticism of administration of relief see *Final Report of The National Employment Commission*, p. 27*ff;* Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance.* See also description in Commission's evidence of relief services in various provinces: *e.g.*, pp. 2238*ff.* (Sask.); pp. 5480-82 (B.C.).

[12] For discussion of grants-in-aid as a device for financing unemployment relief see Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance,* Ch. II; Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction,* Ch. VI; Luella Gettys *The Administration of Canadian Conditional Grants.* Ch. VIII.

The experience of the past decade seems to lead inevitably to the conclusion that Dominion grants-in-aid are a thoroughly unsuitable method of dealing with the problem of unemployment relief, and of agricultural relief on a wide scale. The variability of the load from time to time, and from municipality to municipality, makes exceedingly difficult, if not impossible, a system of grants which will be politically acceptable and at the same time fair to the municipalities and provinces concerned. Grants based on dollar costs are not an equitable measure of assistance because the load varies so profoundly as between municipalities and as between provinces. On the other hand, grants in accordance with need are exceedingly difficult to estimate because of the lack of objective standards of measuring need. Further, they leave the door open to various abuses, since the greater the proportion of costs borne by the Dominion the less the incentive for the province or the municipality to keep down costs. Despite the magnitude of the sums involved, the Dominion has been unable to obtain sufficient control over administration to assure the efficient expenditure of its own funds. The difficulty has been enhanced by the fact that municipal administration can only be controlled by the Dominion indirectly through the province. Moreover, so greatly do the needs vary from province to province, and year to year in the same province, and so wide is the discretion necessary in estimating grants, that political considerations may easily enter, either in awarding or requesting grants, and the temptation to make political capital out of a grant or out of the refusal or reduction of a grant is always present.

The Failure of Remedial Action.—Perhaps the most serious indictment of the whole system of handling relief is that it has prevented the concentration of responsibility for remedial policies. The underlying assumptions were that, in the first place, relief was essentially a municipal and, in the second place, a provincial responsibility, and that the Dominion was assisting other governments only as a matter of grace. Yet it was obvious that the municipalities were quite unable to take effective remedial action because of limited resources and lack of control of economic activities. When they did attempt remedial action it was frequently short-sighted and often economically unsound as, for example, in restricting the use of machinery on public works. The provinces were little more able to take effective action. Virtually the only methods available to them were those of public works and land settlement. Yet both types of policy were highly costly and neither policy, nor both together, could take care of large numbers of the unemployed. Those provinces which attempted either policy on an extensive scale soon found their credit resources badly strained. While in the latter years of the depression the Dominion did attempt to encourage remedial action along various lines such as re-training of unemployed, youth training, assistance to the provinces and municipalities for public works and housing, cheap credit for home improvement and private construction in housing, and reduction of taxation on capital improvements of industry, it cannot be said that these policies effectively alleviated the burden of relief. Much less can it be said that they cured unemployment. The principal difficulty has been that many Dominion schemes required co-operation from the provinces and municipalities, and usually proportionate contributions from them. On occasion the views of provincial governments as to the proper remedial policies differed from those of the Dominion, and co-operation was not forthcoming. In all cases where Dominion remedial policies required contributions from the provinces or municipalities the effect was to increase their immediate financial burden, a condition which frequently deterred them from co-operation. Thus co-operation between the Dominion and other governments was often absent and frequently the Dominion and the provinces worked at cross purposes.

Economic and Financial Consequences of Divided Responsibility.—We shall later discuss the problem of jurisdiction in the field of the social services generally, but it is desirable here to point to the main conclusion to be drawn from experience with relief during the past decade, and to discuss this conclusion in the light of broad economic considerations.

Nothing in the history of Canadian government has contributed more to the breakdown of our system of public finance or has been productive of greater waste in the economy than the attempt to hold local governments primarily responsible for unemployment, as well as other, relief. All the provinces and many municipalities have accumulated debts which in most cases their revenue systems cannot efficiently support, and the credit of many municipalities and of certain provinces was completely destroyed. The manner in which the Dominion assisted the local governments has given rise to large inter-governmental debts, arbitrary transfers and difficult problems of administration which have seriously disrupted the harmony of Dominion-provincial relations.

Mass unemployment in Canada, as in the past ten years, is largely the result of depression or economic changes abroad which are communicated to this country through the fall in export prices and demand. In the integrated and interdependent Canadian economy, the volume of capital investment largely depends on the anticipation of an export market, and the export income determines the size of the internal market for manufactured goods. A rapid decline in export incomes produces a sharp contraction in construction activity and in industrial output thus creating a nation-wide problem of unemployment.

As is more fully described in Book I of this Report, the various factors in the Canadian economy are today closely inter-related. The high degree of interdependence between country and town, between the primary and secondary occupations, between the exporting and domestic industries, is one of the most significant facts of our economic life. The economic opportunities and the real income of the wheat farmer, the miner, the fisherman and the lumberman who sell their products abroad, are in large measure determined by the tariff, transportation, developmental and monetary policies which are formulated on a national basis for the achievement of national purposes. Foremost among these national purposes is the maintenance and development of an industrial and a commercial community. Under the influence of these policies, the factory labourer in an Ontario city, the worker on a transcontinental railway, the clerk in a head office in an eastern metropolitan centre, and the investor in a national business enterprise, have come to be ultimately dependent upon the purchasing power of the exporters in every province of the Dominion. At the time of Confederation, local self-sufficiency and regional economic isolation and independence were the most noteworthy features of the new political union. Today the self-contained existence has disappeared and the income of Canadians is derived from an intricate and closely-knit economic organization which is transcontinental in scope. Now that the economic structure of the country is fundamentally national with respect to the attainment of economic welfare and opportunities for employment, it can no longer be compartmentalized for the purposes of meeting the costs of widespread destitution and unemployment—except at the price of financial chaos and enormous waste.

The extent of the unemployment in any industry or area has virtually no relation to purely local conditions. The local municipality or province can do practically nothing to ameliorate the problem nor to hasten its disappearance. Nor is the province or the municipality a convenient authority for spreading the risks of unemployment over a term of years, by insurance methods or otherwise. All it can do is to try to meet the costs of relief until its revenues are exhausted and its credit gone, in which event it loses its financial independence and becomes a ward of the senior government. A system of federal grants-in-aid or inter-governmental loans which merely prolongs this process is no solution.

Under the conditions of local responsibility the appearance of a serious problem of unemployment or destitution in any province means that large additional expenditures have to be met out of sharply falling revenues. The taxation powers of the provinces and municipalities are limited by the constitution, and in many cases they are unable to use effectively such powers as they have because of the tendency of the national surpluses or large net incomes to concentrate in certain areas. These governments are virtually forced to make all manner of imposts on consumption, on costs of production and on small incomes; imposts which are detrimental to business, discourage investment and render even worse the situation which they are trying to meet. If they fall back on continuous borrowing, their credit is soon destroyed. And they lack sufficient power over economic activities to enable them successfully to alleviate the burden or to promote recovery.

The Dominion is the only government which can meet, in an equitable and efficient manner, the large fluctuating expenditures due to unemployment. Its unlimited powers of taxation give it access to all the incomes which are produced on a national basis regardless of where they may happen to appear, and it can obtain the needed revenues therefrom in a manner which is the least harmful to welfare and productive enterprises. With its control over the monetary system the Dominion is able to finance the temporary deficits that may arise from sudden increases in expenditure without suffering such a drastic weakening of credit as occurs when the budgets of local governments get seriously out of balance. The monetary and taxation powers of the Dominion would enable it to follow a planned budgetary policy of deficits during depressions, and surpluses and debt repayment during prosperity,—a policy which is generally impracticable for provinces and municipalities.

Perhaps even more important than the heavy burden which arises from expenditures on unemployment relief and the difficulties connected with the division of the cost between the various levels of government, is the tremendous wastage which results from the enforced idleness of resources and men. The wastages which arise out of inefficient administration, the destruction of the credit of local governments, and forms of taxation needlessly harmful to business enterprise, are serious, but they are relatively small compared to the decline in national income and the permanent impairment of the efficiency and morale of labour which results from widespread and protracted unemployment. It is not suggested that it is within the powers of government to do away with depressions, particularly in a country like Canada which is so largely dependent upon foreign markets, but governments can do a great deal to minimize the huge losses in national income. The planning of public works and developmental expenditures, an intelligent and co-ordinated use of credit, foreign exchange, trade, transportation and taxation policies are powerful instruments with which to combat unemployment and to reduce fluctuations in income. The Dominion is the only government which can use these instruments effectively. So long as the responsibility for unemployment rests with the nine provinces (and their creatures, the municipalities) which may follow different and conflicting budgetary, taxation, development, and public works policies, Canada will be unable to eliminate the avoidable economic wastes and social consequences of mass unemployment.

2. The Reallocation of Responsibility in the Social Services

We have already discussed the historic developments which brought about the present administrative and financial chaos in the social services. The experience of the past decade has emphasized the supreme importance both of a clear division of responsibility between the Dominion and the provinces, and of adequate revenues for each to enable it to fulfil its responsibilities. We deal elsewhere with the transfer of debt burdens and the redistribution of revenues. It will be obvious that our proposals in this connection are intimately related to those which follow about the reallocation of responsibilities in the field of social welfare. We now proceed to lay down the principle of division which seems to us to allot to each authority its most appropriate functions. We shall later discuss the application of this principle to certain services and the ways and means of handling other services which for one reason or another cannot be allotted exclusively to either authority.

In proposing a clear division of responsibility we have been guided by the principles enumerated in the introduction to this section of the Report: "The presumption that existing constitutional arrangements should not be disturbed except for compelling reasons"; a recognition of the "differences in social philosophy between different regions in Canada"; the necessity for "economy and efficiency in government"; "the suitability of different jurisdictions for carrying the financial burdens involved," and we have been careful in recommending transfer of jurisdiction to the Dominion to limit our proposals to what we consider absolutely necessary.

The experience of the past decade is conclusive evidence that unemployment relief should be a Dominion function. By unemployment relief we mean relief or aid for unemployed employables as distinct from unemployables. Provincial responsibility for other welfare services should continue, and the provinces should be enabled financially to perform these services adequately. Provincial responsibility for social welfare should be deemed basic and general; Dominion responsibility, on the other hand, should be deemed an exception to the general rule, and as such should be strictly defined. But the Dominion should be given adequate jurisdiction to perform efficiently whatever responsibilities are entrusted to it.

Prevention and Relief of Unemployment

The assumption of responsibility by the Dominion for relief or aid of unemployed employables would entail: (1) complete financial responsibility; (2) full control of administration. For efficient administration it would also be essential:

(*a*) That the Dominion define employability for purposes of administering unemployment aid;[13]

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[13] We adopt the terminology recommended by the National Employment Commission (p. 33):
"1. 'Aid' to designate moneys granted by the Dominion to alleviate conditions of persons in need, whether because of unemployment, loss of gainful occupation, or agricultural distress, classified respectively as 'Unemployment Aid', 'Occupational Aid', and 'Agricultural Aid'.
2. 'Assistance' to designate payments made under regularized statutory provisions on a definite basis to meet continuing social need, whether the same be paid wholly by the Provinces and/or Municipalities, as in the case of Mothers' Allowances, or jointly on a Dominion-Provincial contributory basis, as in the case of Old Age Pensions.
3. 'Relief' to designate payments made by the Municipalities for the relief of destitute or indigent individuals. Such relief is subdivided into 'outdoor relief' where accorded to the person living in his ordinary place of abode, and into 'indoor relief' where custodial or institutional care is in question.
4. 'Voluntary Aid' to designate help accorded distressed individuals by services under voluntary operation and supported mainly by voluntary contributions."

(*b*) That the Dominion have full control of administration of unemployment aid;

(*c*) That a national employment service be established and administered by the Dominion without prejudice to the right of the province to continue or develop an employment service of its own;[14]

(*d*) That the Dominion be empowered to establish a system of compulsory unemployment insurance.

The first three of these essentials might or might not require constitutional amendments, but unemployment insurance is quite another matter in view of the recent decision of the Judicial Committee of the Privy Council.[15] While the desirability of unemployment insurance as a means of alleviating the burden of unemployment is debatable—and we discuss this later[16]—it is highly unlikely that any province would institute a scheme of insurance for a group for which the Dominion had assumed financial responsibility. Further, it is important that the Dominion should be able, if it deems desirable, to institute an insurance scheme as part of its general method for handling unemployment relief. We recommend, therefore:—

(1) that all doubts should be removed as to the power of the Dominion to pay and administer unemployment aid, and to establish a national employment service; and

(2) that the Dominion Parliament be given jurisdiction to establish unemployment insurance.

Jurisdiction in these matters might be made *concurrent* (as in the case of immigration and agriculture) or the Dominion might be given *exclusive* jurisdiction over relief for unemployed employables, the establishment of employment offices for this class,* and unemployment insurance. If the latter course is adopted the extent of jurisdiction transferred to the Dominion should, however, be clearly and precisely defined.[17]

Definition of Employability and Eligibility for Unemployment Aid.—Our proposal is that a clear line should be drawn between employables and unemployables and that the Dominion should assume responsibility for employables only. In order to secure uniformity in the definition of employability, and hence equality of benefit for all provinces and municipalities, it would be essential that the definitions of employability and of eligibility for Dominion aid be made by the Dominion.[18] Any definition for legal or administrative purposes is bound to be somewhat arbitrary, but it is basic to our scheme that the province (and its municipalities) should be responsible for public assistance for all groups and individuals who do not come under the Dominion's definition.

But a clear definition will not alone solve all difficulties. A wide discretion in applying the definition will have to be left to officials on the spot. While theoretically an individual declared unemployable by the Dominion service would *ipso facto* be a provincial (and municipal) responsibility, hardship might easily result from the reluctance of local authorities to accept the ruling of a local representative of a Dominion service. Moreover, the charge of unfairness by Dominion officials might well give rise to friction between the Dominion and a province. We think it is essential, therefore, that local appeal boards, on which both the Dominion and the province (or the municipality) would be represented, should be established to hear appeals of individuals or the municipality against the ruling of the local office of the Dominion service as to the employability (and, hence, the eligibility for unemployment aid) of any particular individual. Presumably a local judge or magistrate might sit as chairman of such a board. Such a board could not, of course, alter the definition of employability as laid down by the Dominion Parliament; its

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[14] *Prima facie* such a provincial service would be essential to deal with those unemployed not in receipt of aid from the Dominion (*e.g.* partially employables) but as suggested elsewhere the Dominion might undertake such services for any province by arrangement, presumably for reimbursement for costs of services rendered.

[15] Reference *re Unemployment and Social Insurance Act*, [1937] A.C. 355; [1937] 1 D.L.R., 684. This decision did not deal expressly with the establishment of employment offices by the Dominion which was also provided for by the Act in question. The Board held that the Act was "in pith and substance . . . an insurance Act," and that the other features were "so inextricably mixed up with the insurance provisions", that it was impossible to sever them.

[16] For extended discussion of social insurance in general as well as of unemployment insurance, see p. 35 *ff*.

* *I.e.*, a province should still be entitled to establish or authorize employment offices for other groups as envisaged by para. (*c*) and footnote 14 above.

[17] Attention of the Commission has been drawn to the legitimate apprehension of Quebec that the allocation of new powers to the Dominion might carry with them ancillary power likely to trench upon rights defined by the Quebec Civil Code. In so far as our recommendations are implemented by legislation it will be the duty of the draftsman to guard against this possibility.

[18] Both the definition of employability and that of eligibility for unemployment aid would no doubt change from time to time. They would include such matters as: minimum and maximum ages both of male and female workers eligible for aid; mental and physical capacity to earn an adequate wage not less than the provincial minimum; willingness to work; provision for a means test; eligibility for aid for unemployment due to illness; responsibility of family or relatives; eligibility of dependents of unemployed employable for aid; etc.

duty would simply be to interpret and apply the rule in particular cases brought to it by way of appeal. But it would be inherent in the scheme that should an appeal by a municipality against the ruling of a Dominion relief official result in confirming the employability of the worker concerned, the municipality would be entitled to a refund from the Dominion for sums spent on his relief for the period during which the board deemed him employable. A board with such powers would be of value in assuring both applicants for Dominion aid, as well as municipal authorities, of the fairness of Dominion administration, and should greatly reduce the reluctance of municipalities to provide interim care in cases which it believed to be properly a Dominion responsibility.

The Employment Service.—A national employment service under Dominion control is a vital link in our proposals. We thoroughly agree with the findings and recommendations of the National Employment Commission on this point:—

> "Early in the Commission's investigations it became evident that the first and most vital step necessary to the successful handling of employment, re-employment and Aid administration problems is the development of more efficient Employment Services throughout Canada. The present Provincial Employment Services are in practice unfitted to meet the exigencies of the situation. Divided responsibilities and diversity of aims between different Provinces; unequal development as regards numbers, types and functions of local offices; unsuitable locations of premises; defects in Provincial boundaries when used as economic administrative units, etc., have all tended to result in the Provincial Employment Services not being utilized fully either by employer or by employee.
>
> The provision of a proper link between employer and employee; of local advisory councils supplementary to local Employment Service offices in order to provide focal points for attacks on local problems; of means for gauging the relative degree of employability of those in receipt of Aid, are of pre-eminent importance if any real progress is to be achieved in handling unemployment problems. Indeed this is the experience of other countries also.
>
> Bearing in mind the desirability of uniformity of practice where financial Aid for the Dominion is in question; of freedom from local pressure in administration; of a Dominion source of local information independent of Province or Municipality in respect to unemployment assistance, etc., the Commission recommended in August, 1936, that the Employment Service be administered nationally. In any case the situation requires increased and improved service which will cost more, but it is recognized that national administration in itself would not add anything to the total cost to the country as a whole. The Commission, however, believes the extra cost to the Dominion government of the transfer from the Provinces would be more than offset by efficiencies and, therefore, economies which would result."[19]

Opinions expressed in our hearings in general agree with the views of the Employment Commission that the employment service is more appropriately a Dominion service.[20]

Administration of Unemployment Aid.—The functions of a national employment service would not only be those of redistributing labour in accordance with the opportunities for work; we think that at the outset at least it could conveniently form the core of the administrative service for administration of unemployment aid, and of unemployment insurance if this were established. It is thus essential that an efficient and adequately staffed service be instituted. The assumption of administration of unemployment aid should not involve the establishing of a great many more offices than now exist under the provincial employment services. Unemployment during the past decade has been concentrated in industrial areas, in most of which provincial employment offices now exist. The division of the staff dealing with relief could be expanded or contracted in these centres as employment fell or rose, as in the case at present in municipal administration of relief. As for aid for employables in rural or village communities remote from industrial centres, this, we think is relatively a minor problem, and might be dealt with by using local or municipal institutions dealing with unemployables as agencies for relief for employables. We think that an inspection and audit system could be devised to afford adequate protection for the Dominion's interests in communities where the problem of relief for employables was not sufficiently large to warrant a local office of the Dominion service.

To assure adequate coverage of the field on the one hand, and to prevent duplication of relief services on the other, close co-operation would be essential between Dominion officials concerned with employment and local officials or private associations engaged in welfare activities. But we do not think this should be difficult to attain, especially as social service administration develops a professional tradition. Close co-operation in provincial welfare policies and federal policies for alleviating unemployment will also be necessary. For example,

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[19] Interim Report, pp. 17-18.

[20] Ex. 16, Memo. Manitoba Dept. of Labour; Ex. 214. Canadian Ass'n of Social Workers, B.C. Mainland Branch; Ex. 380B, Canadian Welfare Council; Ex. 383, United Church of Canada.

employment offices should be in close touch with municipal and provincial public works activities. Federal employment offices could also be made available for placing in employment wherever possible those who might not be recognized as employables by Dominion regulations, as for example, physically handicapped persons, or part-time workers. Additional expenses might be incurred by the Dominion for this service but reimbursement or purchase of the service by the province should be possible. Federal regulations on many points would also have to be integrated with provincial regulations. While unemployment aid would aim primarily to maintain the employability of the worker, minimum going wages in the community should be maintained above this rate.

In conclusion, the Commission recognizes that its proposals leave unsolved many important problems of definition and administration, among them: To what extent should aid for unemployed employables include relief for their dependents? Should unemployment aid be entirely cash relief or partially in kind? Should aid vary in accordance with local costs and standards of living? To what extent should unemployment aid scales differ from insurance benefits, assuming an unemployment insurance system is adopted? Under what conditions would an employable become an unemployable and thus the responsibility of the province (or the municipality)? Under what conditions should an unemployable become an employable? But these are details of policy and administration which the Commission feels are beyond its duty to advise upon; in any case, many of them can only be decided wisely in the light of experience. The Commission's function is to recommend the appropriate division of responsibility in principle, rather than to elaborate a complete scheme of definition and administration.

The Prevention of Unemployment.—If the Dominion assumes full responsibility for relief of employables, it should have much stronger incentive than under the present system of divided financial responsibilities to adopt vigorous remedial policies and policies to prevent unemployment from arising. As has been pointed out above, the Dominion has control of various economic weapons —monetary, credit and trade policies, etc.—with which it can combat unemployment. It is not our function to map out a program for controlling employment, but such a policy to be at all effective would demand close co-operation at many points between Dominion, provincial and municipal governments, and it is with these inter-governmental relations that we are here concerned. Two methods for influencing the volume of employment call for special consideration in this connection, viz., the timing of public works, and the use of relief works in periods of unemployment.[21]

By the "timing of public works" is meant the postponement of works which are necessary, but not urgently needed, until private enterprise has ceased to provide reasonably high employment in the construction industry. Public expenditures are thus held in reserve and are used to offset inactivity which the construction industries experience in the early stages of depression. It is essential for the success of such a plan that the governments concerned should build up surpluses (or retire debt) in prosperous years, and it is highly desirable that their construction programs at the onset of a depression should be co-ordinated. Timing of public works, in this sense, is a cautious and conservative policy.

The extent to which a policy of timing public works can be used without undue waste must depend on the circumstances of the day, on acquired experience, and on systematic planning. The experience can best be acquired and planning is most likely to be wise if the whole problem of unemployment is brought under the single control of the Federal Government, which will have every inducement to work out a long-time policy rather than the hand-to-mouth policy which all governments in Canada have hitherto pursued, and to enlist the help of provinces and municipalities in implementing it.

The National Employment Commission thus describes the types of works which might with advantage be included in such a policy:—

> "A program looking toward the expansion of public expenditure might include public works, the needs for which have been surveyed in advance and the engineering details of which have been fixed during the initial period of the depression. A preference may well be given to those works employing proportionately large amounts of direct and unskilled labour, and to those which can be curtailed readily as the volume of private expenditure rises during the recovery period. A relatively small place should be given to public buildings, which require in the main highly skilled trades, that is unless a supply of skilled labour is available. In the selection, timing, and location of public works, the greatest care should be exercised that public works do not compete with private employers for workers, this in view of the relatively high proportion which private expenditures must always bear to governmental expenditures.

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[21] Both these policies are discussed in the *Report of the National Employment Commission*, pp. 31-32; 34-37.

Works undertaken in such programs should be those which have a definite value in promoting the competitive strength of Canadian industry, and in improving the conditions of life in the Dominion. They may properly include:

Building of highways to permit the development of mining, tourist and other resources;

Development and preservation of tourist regions;

Projects for the improvement and protection of public health and safety (such as provision of Municipal pure water supply and sewage disposal projects, elimination of railway and highway grade crossings, etc.);

Slum clearance and low rental housing schemes in urban areas;

Forestry plans for extending and preserving forests;

Reclamation and conservation projects;

Land clearance and settlement projects where the conditions are clearly favourable to successful settlement.

It is important that the projects should be such as can be planned thoroughly in advance, as are capable of postponement, and as do not increase public expenditures *permanently* through heavy maintenance charges."[22]

While the Dominion can plan its own public works (railways, canals, harbour improvements, etc.) in accordance with the business cycle, the largest expenditures on public works now normally fall within the provincial-municipal field (highways, power development, street improvements, sanitation, etc.). Direct control of the public works policies of municipalities is, of course, a provincial and not a Dominion matter. Likewise, the Dominion has no direct control over provincial public works expenditures, so long as they are financed out of revenues or on the sole credit of the province. There appears, however, to be scope for close co-operation between the provinces and the Dominion in stabilizing employment, if the former are willing to postpone the less urgent provincial and municipal public works in times of prosperity. The Dominion, which would have to bear the burden of unemployment would have an interest in helping to finance these public works in times of adversity. A policy of timing public works presumably would include Dominion works and capital expenditures on railways, both public and private, as well as provincial and municipal works. Such a policy, co-ordinated with credit, monetary and taxation policies, would largely determine the volume of public works expenditures and would have considerable influence on the volume of employment.

In view of the great desirability of timing public works generally and of the role which Dominion credit and monetary and taxation policies may play in such a program, especially if our financial recommendations are implemented, it is of great importance that there be constant consultation and co-operation between the provinces and the Dominion in this field. It is probable that a permanent committee or council on which the Dominion and the provinces were represented would be useful for this purpose. Such a council or committee might be formed as an adjunct of regular Dominion-Provincial Conferences, or as an independent body with its own technical staff.

While we have condemned grants-in-aid as a means of financing unemployment relief we do not think the same considerations apply with respect to grants-in-aid for "timed" public works. In the case of public works it would appear that the Dominion's interest can be adequately protected by restricting aid to works approved in advance, and by objective engineering standards, as well as proper accounting practices, which can be applied both during construction and after completion of the work.

In contrast with these policies which aim at giving employment to special categories of labour in their normal occupations, special or "relief works" may be provided on which those who would otherwise receive unemployment aid may be employed. It is usually a local or provincial authority which is in a position to formulate such projects. Hitherto these authorities have been in a position to employ people to whom they would otherwise have had to pay relief. The National Employment Commission proposed that the Dominion, if it pays unemployment aid, should encourage the local authorities to undertake projects of this kind on which persons in receipt of unemployment aid from the Dominion would be required to work for the time necessary to earn their relief.[23] The local authority would thus be able to get useful work done at small cost.

An alternative course of action would be for the Dominion to encourage relief projects by local authorities by means of grants-in-aid, provided work were given only to those on the Dominion's employment rolls and in receipt of unemployment aid.

Yet certain limitations and dangers to a policy of relief works should be noted. The cost of relief works frequently is out of all proportion to

[22] P. 35.

[23] Pp. 30-31.

the savings in expenditures for direct relief, and in any case it is extremely difficult to employ a large proportion of the unemployed in the event of widespread depression.[24] Despite obvious advantages in morale of providing work instead of relief, relief works may in fact be highly uneconomic if, for example, they are unneeded by the community, or if manual labour is unduly favoured over machines. Relief works may also compete with private industry, and wage scales on relief works may compete with the wage scales in private industry. It may be difficult to employ workers of highly specialized skills without detriment to their efficiency, and it may also be difficult to secure bona fide work from labour. Finally, political factors may enter unduly in the selection of projects, and even in the selection of labour—a possible danger for "timed" public works as well. But we call attention to these difficulties and dangers of a works relief policy merely to indicate its limitations.

RELIEF TO PRIMARY INDUSTRIES

Assistance for the victim of natural forces—the farmer whose crop has been hailed out, the fisherman whose nets have been swept away—has traditionally been a local responsibility. Generally speaking, the circumstances and the appropriate forms of assistance vary so greatly between individual cases that only local administration can meet the needs promptly and efficiently. It also appears appropriate that the financial liability should be local; it is in effect a flexible form of group insurance against the natural risks characteristic of the community industry, and a proper expense of that industry.

It is not easy to distinguish clearly between distress due to some natural disaster, and distress due to unfavourable marketing conditions, inflated costs, and other economic factors. Where the former is the case, and only the occasional individual is affected, the community can easily bear the financial responsibility of his relief; where the latter is the case, the whole community is likely to become impoverished. In the diversified and largely self-sufficient agricultural areas the economic factors are not so important, and minimum subsistence standards at least can be maintained from local resources, but in the more specialized cash-crop areas the whole basis is much more vulnerable. Either failure of the cash crop, or low prices and restricted markets will likely make necessary substantial cash assistance—which in an impoverished industrial area might have its counterpart in increased tariff protection. In serious cases the local community's financial resources and credit will quickly be exhausted.

The Canadian wheat industry is the outstanding case of the dependence of a large area, and a large sector of the whole national economy, on the profitable production of one product. When an unprecedented series of crop failures coincided with record low prices, provincial and then Dominion governmental assistance was necessary to prevent complete collapse of the industry. In such circumstances there could be no question of adhering to the traditional allocation of responsibility, and the Commission does not suggest that an attempt should have been made to have done so in the past, or should be made if similar conditions should again develop.

But it does seem clear that very serious abuses and wastes occurred as a result of the breakdown of local responsibility and the confusion which ensued. Farmers who were completely destitute needed, in addition to subsistence for themselves and their families, seed grain, feed for their stock, tractor fuel and repairs, binder twine; in short, all the operating expenses of the industry. Particularly in the case of Saskatchewan, which was both the hardest hit, and the most lacking in alternative resources, supplying the operating costs proved greatly beyond the financial capacity of joint provincial and municipal governments. Very large sums were then advanced by the Dominion, and they ultimately, through provincial and municipal agencies, reached the farmer. Provincial and municipal governments, however, could not be expected to undertake the unpopular task of collecting these debts to reimburse the Dominion as actively and aggressively as if it had been their own funds which were involved. An even more serious abuse than the financial losses due to lax collection, was the premium put on appeals to the government for assistance even when the individual could have met some or all of his own needs. A man would very naturally hesitate to risk his own money when his neighbours were being financed by the government, and it was natural also that a man who had saved his money would feel very bitter if forced to carry himself while less provident neighbours borrowed from the government and were

[24] Thus in March, 1934, despite a large number of relief works under way, only 150,000 relief recipients were thus employed out of a total relief roll of over 1,500,000. See Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance*, Ch. II.

then permitted to evade repayment. The practices which were encouraged under this system did incalculable damage to the general morale.

The Commission consequently recommends that, in the event of repetition of the need for the Dominion advancing the operating costs of a primary industry, the Dominion should make the advances and collections directly. This need will only arise if the Commission's financial recommendations are not implemented. If these recommendations are implemented, a province of course would not have to borrow from the Dominion, but would be able, on establishing its need, to obtain an emergency grant,[26] or to borrow from other sources, since the increased service on its debt would be met by an increased National Adjustment Grant.

But whether or not its financial proposals are adopted, the Commission recommends that the Dominion should furnish directly operating cost advances, if these have to be made, whenever it undertakes the regulation of a primary industry, including control of the marketing of the product and setting its price. The Commission believes that the result would be greater efficiency in collections, substantial savings of public funds, and equity and fairness as between individuals in the industry, since the Dominion, through its monopoly control of the product, could reimburse itself directly. In such cases, and in accordance with the general principle underlying the Commission's financial recommendations that the provinces and municipalities should be provided with as stable revenues as possible, local and provincial tax levies should be given priority over recovery of these advances. This recommendation would appear to require no constitutional change, and would apply only to those cases in which the Dominion already had, as a matter of fact, recognized the need for national aid to and responsibility for an industry. Nor would the general principle of the Commission's recommendations that the province (and its municipalities) should be responsible for relief of destitution arising from causes other than unemployment be affected. Relief of destitution among farmers or other primary producers would still remain the responsibility of the province, even if the Dominion had come forward to relieve the industry by advancing operating costs, unless the Dominion had expressly extended its definition of eligibility for unemployment aid to include such groups. But we do not recommend that it should do so.

[26] For details of financial recommendations see Section B.

PROVINCIAL WELFARE FUNCTIONS

It is fundamental to our recommendations that the residual responsibility for social welfare functions should remain with the provinces, and that Dominion functions should be deemed exceptions to the general rule of provincial responsibility. We have recommended that the Dominion should assume responsibility for the prevention and relief of unemployment. We shall later discuss the special problems of non-contributory old age pensions, public health and social insurance. But it is basic that the provinces should be deemed responsible for providing for cases of need not actually covered by Dominion services. We shall now examine very briefly the main services which will remain with the provinces.

Indigency or "Poor Relief".—This is the residual category of the social services and under our recommendations it covers those in need who are not qualified for inclusion on the unemployment aid rolls of the Federal Government or provided for by other specific social services. "Poor relief" has been the traditional responsibility of the provinces and municipalities, and in our opinion it should so remain. Those to be provided for by this service will include many who are totally and even permanently unemployable, many who are partially employable but who cannot become fully self-supporting and, at any given time, men and women who are not without some claim to be employable but who, for one reason or another, may be refused a place on the employment rolls of the Dominion. It is an essential part of our proposal that there should be no possible doubt as to the exclusive responsibility of the provinces for these groups. The Dominion may extend the scope of its services from time to time but, for all needy persons who at any one time are not given necessary care by the Dominion through any of its several specific schemes, provision of such care should automatically be a responsibility of the province, and no one should be exposed to refusal or delay of necessary assistance on the ground that the Dominion ought to have provided for him.

There will inevitably be many points at which Dominion and provincial services interlock, and to avoid serious hardship to some individuals the principle of residual responsibility of the provinces should be rigidly observed. Thus if the Dominion in providing unemployment aid makes no provision for medical services to recipients, and their dependents, the responsibility for providing such services should rest without question on the provinces.

Medical aid to unemployed employables could be classified either with unemployment aid (which we have recommended should be provided by the Dominion) or with public health services (which we have recommended should be provincial). In the former case it may result that two services—one provincial and one Dominion—are providing the same type of service to different groups in the community and even to the same man on different days; in the latter, the same individual may look to different authorities for different services. We believe that the dangers of waste and overlapping in a situation where both Dominion and provincial health services are established would be so great that this service should be left exclusively to the provinces.

Although poor relief and medical aid are properly provincial functions, and although they may ordinarily be best administered by local or municipal authorities, the complete fiscal burdens of medical aid and poor relief within the area cannot be fairly imposed on every municipal authority. Fiscal justice demands that the burden imposed on the inhabitants of an area should not be out of proportion to the wealth and taxing powers of the area. Yet this would be the case if, in a large metropolitan area, two suburban municipalities were separately incorporated, one containing low, the other high, income groups. Our financial recommendations, if adopted, should make it possible for the province to bear a greater proportion of the load of poor relief and medical services than in the past. But in any event there is a strong case for the equalization of the costs of these services as between municipalities in the same province.

The assumption by the Dominion of responsibility for unemployment aid would, as has been pointed out, solve many of the present problems of transiency and non-residence, both as between provinces and as between municipalities in the same province. These problems would, however, remain in respect of the provincial services of poor relief and medical care. It is our hope that the provinces will be in a position to deal with these evils within the province, as some have already done, either by uniform residence rules or by assuming the cost themselves. By improving the provision for the destitute in the poorer municipalities within the province, the drift of dependent classes to the centres of population might be arrested. As between provinces the remaining problem of transiency and non-residence are matters which could appropriately be dealt with by inter-provincial agreement or at Dominion-Provincial Conferences.

Widows' Pensions, Mothers' Allowances, Child Welfare.—These services are, we think, of peculiar interest to the province since they involve questions of social policy with respect to the preservation of the family unit, and the care and upbringing of children. Moreover, their administration involves detailed supervision which in many cases must be highly personal and discretionary in character. On both grounds, therefore, we think that they are primarily provincial services.

It is possible that all these services might be financed in part by social insurance. If such a scheme were developed under Dominion jurisdiction—a subject we discuss later[27]—the effect would be to lessen the costs of these services to the province since widows in receipt of annuities from the Dominion would stand less in need of provincial assistance. Nevertheless there would undoubtedly still remain a residue of widows, deserted mothers, and orphans to be provided for. These would remain a provincial responsibility.

Old Age Pensions.—On the division of responsibility which we have recommended, viz., that the Dominion should assume financial and administrative responsibility for unemployed employables, and the province continue to be responsible for other groups of dependents,—old age pensions would logically fall to the responsibility of the province. The needy aged have long been a special group assisted by the municipalities under the general head of "poor relief". Moreover, generally speaking, the needy aged are a stationary rather than a migratory group of dependents and, unlike able-bodied labour, there is no economic reason why they should be enabled to move about from one municipality to another, or one province to another. But the problem of the needy aged has now become so large that in general the municipalities would be quite unable to support them in decency without substantial assistance, and the same holds true for some of the provinces. The financial inability of provinces and municipalities together to provide adequately for this group was a reason given for the Dominion assuming part of the burden by a system of grants-in-aid for approved provincial schemes beginning in 1927.

At present old age pensions are paid under an arrangement between the Federal Government and each province, terminable on ten years' notice. The Federal Government bears 75 per cent of the cost (not including the cost of administration)

[27] See p. 35 ff.

provided that the province enacts, as each has now done, legislation which conforms to certain conditions. The general effect of this legislation is to pay pensions to persons over the age of 70 without requiring any prior contributions from the recipients. But payments are confined to those who have no incomes or very small incomes and the maximum pension is fixed in terms of dollars.

The Old Age Pensions Act was amended in 1937 to provide for the payment of pensions to blind persons who had reached the age of forty and who satisfied the conditions of the Act and its regulations. The Dominion pays 75 per cent of the cost of these pensions.

The present cost of old age pensions is heavy and is likely to rise through an increase in the proportion of the Canadian population over seventy years of age. In the year ending March 31, 1938, the total cost of old age pensions in Canada was over $38 million and it has been estimated that the cost will be $46 million in 1941, $62 million in 1951, $82 million in 1961 and over $92 million in 1971 on the assumption that the present basis for pensions remains, and on the assumption that the proportion of people who provide for their old age is not increased.[28] This estimate takes no account of the likelihood of a successful demand for reducing the age at which old age pensions are payable or for increasing the rate. Such changes would obviously increase their cost substantially, but the cost to the state of other social services, such as relief, might be somewhat reduced.

There are admitted defects in the present arrangements. The Dominion, although it pays 75 per cent of the pensions, has not been able to exercise effective control over provincial administration. Its principal method is that of a post-audit, which cannot very well go behind vouchers and examine the accuracy of the means test which the province is required to apply before granting a pension and from time to time while continuing it. It is doubtful whether the proportion paid by the province (25 per cent of pensions plus administrative costs) is sufficiently heavy to induce careful scrutiny of all applications. Nor can the Dominion inquire into the general efficiency of provincial administration of the scheme. On the other hand, it is generally admitted that some abuses have been removed as provincial schemes have got under way and as a result of conferences between administrative officials of the provinces and the Dominion. At any rate, the system seems to be working with considerably less friction between Dominion and provincial administrators than formerly.

Were the Dominion to withdraw from the scheme, the fiscal needs of every province would be substantially increased, and (assuming the adoption of our financial plan) adjustment grants to most of the provinces would have to be proportionately increased. The cost to the Dominion treasury would not likely be greatly decreased. Moreover, there is less theoretical objection to grants-in-aid for a service such as old age pensions where the amount fluctuates little from year to year, and where at least certain objective tests, such as age and lack of property of applicants, are possible, than for a service such as unemployment relief where the numbers on relief rolls may fluctuate greatly from year to year, and even from month to month. While certain provinces now find their share of old age pensions a heavy burden, our financial proposals for adjustment grants will take care of this, as they do of the costs of other provincial social services. We, therefore, see no good reason for recommending any change in responsibility for non-contributory old age pensions.

If our recommendation elsewhere for a general clause in the British North America Act permitting of delegation of jurisdiction by a province to the Dominion, or vice versa, is adopted, there would, of course, be nothing to prevent any province from delegating exclusive jurisdiction for old age pensions to the Dominion with the latter's consent.[29]

3. State Medicine and Public Health[30]

In 1867 the administration of public health was still in a very primitive stage, the assumption being that health was a private matter and state assist-

[28] For a statistical summary of old age pensions in Canada as at March 31, 1938, showing the number of pensions, the average monthly pension, the proportion of those over 70 receiving pensions and the Dominion contribution for old age pensions in each province, see Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance*, p. 41.

[29] See p. 72.

[30] Public health might be considered as a function of government quite distinct from social services, since many activities of public health administration are concerned with the health of all in the community and not merely dependent groups or individuals. But in view of its close relation to other public welfare activities of government we treat it for purposes of convenience under "Social Services". For survey of public health activities in Canada see studies prepared for the Commission: A. E. Grauer, *Public Health* (Mimeographed) and Appendix 5—Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec*, pp. 88*ff*.

Most provincial briefs contain statistical information on expenditures on health. At the request of the Commission the Dominion Dept. of Pensions and National Health and departments concerned with health in most of the provinces submitted memoranda describing their particular services and organization—see for Man., Ex. 13, Ev. pp. 728-36; Sask., Ex. 77; N.S., Ex. 148, Ev. pp. 4131-43; P.E.I., Ev. pp. 4474*ff*.; B.C., Exs. 191 and 223, Ev. pp. 5204-17, 5446*ff*.; N.B., Ex. 360, Ev. pp. 8656-85; Ont., Exs. 319 and 320, Ev. pp. 7890*ff*.; Ex. 137 (Dominion Dept.) Ev. pp. 3820-34. See also Ex. 246, College of Physicians and Surgeons of Alberta; Ex. 238, Cities of Alberta; Ex. 242, The Alberta Ass'n of Municipal Districts; Ex. 375, Union of N.B. Municipalities; Ex. 154, Union of N.S. Municipalities; Ex. 281, Ont. Municipal Ass'n; Ex. 104, Canadian Hospital Council; Ex. 117, Canadian Tuberculosis Ass'n; Ex. 331, Canadian Nurses' Ass'n; Ex. 388, Victorian Order of Nurses for Canada; Ex. 382, Health League of Canada.

ance to protect or improve the health of the citizen was highly exceptional and tolerable only in emergencies such as epidemics, or for purposes of ensuring elementary sanitation in urban communities. Such public health activities as the state did undertake were almost wholly a function of local and municipal governments. It is not strange, therefore, that the British North America Act does not expressly allocate jurisdiction in public health, except that marine hospitals and quarantine (presumably ship quarantine) were assigned to the Dominion, while the province was given jurisdiction over other hospitals, asylums, charities and eleemosynary institutions. But the province was assigned jurisdiction over "generally all matters of a merely local or private nature in the Province", and it is probable that this power was deemed to cover health matters, while the power over "municipal institutions" provided a convenient means for dealing with such matters.

But the economic and social changes of the past seventy years, which have been briefly outlined at the beginning of this section of the Report, have made necessary state activities and state expenditures on health matters to an extent undreamed of by the Fathers. The mobility of modern society due to the speed and ease of travel; the growth of urban and metropolitan communities; the interdependence for food and water supplies between widely separated geographical areas; the occupational diseases and physical hazards of high-speed, industrialized production; the loss in self-sufficiency of the family incident to the trend toward a wage-earning society; these and many other social changes have compelled governments at all levels to be concerned with the health of their citizens. It may be confidently predicted that the health activities of governments are indeed only beginning, and that expenditures in this field are likely to increase rapidly in Canada, especially in the field of preventive medicine, and medical aid for the lower income groups (either in the form of state medicine and hospitalization, or health insurance, or both).

The municipality has always been, and still is, the basic unit in public health administration. But municipal health activities vary profoundly, urban municipalities, as is to be expected, having wider powers and normally undertaking more activities than rural municipalities. Urban municipalities are ordinarily concerned with such matters as local sanitation, local control of infectious diseases, local inspection of food offered for sale and of hotels and restaurants, local provision of hospitals (many hospitals are, of course, provided by private associations such as religious bodies), and health inspection of school children. The functions of rural municipalities vary from all those of urban municipalities to virtually none at all. Free medical services and hospitalization have long been provided on a very limited scale for those unable to pay by private and municipal hospitals and by the medical profession. But rising costs, especially since 1930, have compelled direct municipal, and even provincial, assistance. The municipality is, however, far from satisfactory as a unit of public health administration, largely because of the great variation in size, population, and wealth between municipalities. Certain provinces, and notably Quebec, have taken steps to establish public health units distinct from municipal areas, especially in rural districts.

For many years all the provinces have provided institutional care for incurable insane and dangerously insane, and all now take a considerable responsibility for providing hospitalization for tuberculosis, and assisting the municipalities in a limited way for general hospitalization of the destitute. All assume some responsibility for controlling epidemic diseases. But even today, the province's functions are largely those of controlling and directing the municipalities. The health expenditures, and hence the health activities, of provincial governments, moreover, vary considerably, the highest per capita expenditure being that of British Columbia (which stood at $3.28 in 1936), and the lowest being that of New Brunswick (which stood at 76 cents in the same year).[31] The primary

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PROVINCIAL EXPENDITURES ON PUBLIC HEALTH, 1936

—	Total	Per Capita
	000	$
British Columbia	2,461	3.28
Alberta	1,719	2.22
Saskatchewan	1,870	2.01
Manitoba	1,571	2.20
Ontario	6,012	1.63
Quebec (*)	3,890	1.26
New Brunswick	329	0.76
Nova Scotia	458	0.85
Prince Edward Island	154	1.67
All Provinces	18,464	1.68

See A. E. Grauer, *Public Health*, (Mimeographed) p. 75.

* It should be noted that the proportion of Public Health expenditures by municipalities varies from province to province and that in Quebec a large share of the cost is borne by hospitals under control of religious orders.

reason for these variations is the difference in the fiscal positions of the provinces. The result is, however, that there are grave differences in health conditions, and notably in the death rate from such diseases as tuberculosis and from infant and maternal mortality.

Dominion jurisdiction over health matters is largely, if not wholly, ancillary to express jurisdiction over other subjects, such as immigration; navigation and shipping; the regulation of trade and commerce; Indians; railways, steamships and public works under Dominion jurisdiction; militia and defence. In 1919 a Dominion Department of Health was established for the purpose of consolidating the administration of various statutes relating to public health (e.g. the Food and Drugs Act, the Opium and Narcotic Drugs Act, the Quarantine Act, the Leprosy Act, the Proprietary or Patent Medicine Act, the Public Works Act). It was intended also that it should facilitate the co-ordination of provincial activities in public health, and with this in view provision was made for a Dominion Council of Health which should include among its members the Dominion Deputy Minister of Health as Chairman, and the chief executive officer of every Provincial Department of Health. It was also intended that the Department should supply services to assist the provinces and supplement their activities. Subsequently, branches were established providing for such matters as venereal disease control, child welfare, publicity and statistics, public health engineering, etc. In 1919 the Dominion also provided for grants-in-aid to the provinces for the control of venereal diseases, the grant continuing yearly until 1932 when it was discontinued as part of a drastic economy program.

This brief survey of the health activities of the municipalities, the provinces and the Dominion indicates that despite the chaotic situation as regards jurisdiction, each level of government is performing functions consistent with its proper role in the government of the nation. Jurisdiction may overlap, but there is in fact little overlapping of functional activities. Indeed, we were impressed by the inadequacy of health services, considering the need, rather than by the existence of duplication.

We cannot see that it would be practicable to assign public health exclusively either to the Dominion or to the province. Much of the actual administration must be left to local or municipal authorities, and so long as the province has general jurisdiction over the municipalities the Dominion could not satisfactorily direct or control local health authorities. Moreover, the educational phase of public health must be closely linked with public education. It is no less important that local public health administration be closely linked to public welfare services, which like education are mainly local and provincial functions. While certain specialized services, such as hospitalization for tuberculosis, might be provided by the Dominion as efficiently as by the provinces, this is not of itself a reason for any shift in jurisdiction. Finally, there are pronounced regional differences in Canada in social philosophy which are bound to affect public health legislation. Centralization of jurisdiction might not, therefore, conduce to progressive action in public health, or to national unity in general. On the other hand, certain health services, such as health inspection of prospective immigrants, or prevention of import or interprovincial trade in dangerous drugs or impure foods, or medical care of the armed forces, could scarcely be provided efficiently by the provinces individually.

We think, therefore, that the present jurisdictional situation should not be disturbed, and that the public must rely on the good sense of public health officials and of political authorities concerned to effect co-operation and to work out an efficient and economical division of functions between the Dominion and the provinces. This division of function should no doubt be changed from time to time in accordance with social needs, but we think it our duty to suggest certain principles which should govern this division.

Division of Functions in Public Health.[33]— Provincial responsibilities in health matters should be considered basic and residual. Dominion activities on the other hand, should be considered exceptions to the general rule of provincial responsibility, and should be justified in each case on the merit of their performance by the Dominion rather than by the province. Mere importance of a service does not justify its assumption by the Dominion.

The province should accept responsibility for,—

(*a*) "Field" activities of public health, generally, which will be mainly carried out by municipal or local authorities under provincial direction.

[33] For proposals made to the Commission on this point see: Ex. 223, Memo. on Distribution of Health Functions between the Dominion and the Provinces, (B.C.); Ex. 103, Canadian Medical Ass'n; Ex. 330, Canadian Dental Ass'n.

(*b*) Institutional care (except for special groups, such as the armed forces, which are the responsibility of the Dominion).

(*c*) Policy as to the method (e.g. whether by health insurance, or by state medicine and state hospitalization) of providing state medical services (including dental and nursing services, hospitalization) for indigents or low income groups.

(*d*) Health education.

(*e*) Preventive medicine.

(*f*) Research into local conditions affecting public health, or on diseases of peculiar importance to the province, or as a function of medical education in the universities.

(*g*) Professional qualifications for the practice of medicine and quasi-medical vocations.[34]

The Dominion's activities should be confined to,—

(*a*) Enforcement of health measures which are ancillary to its defined legislative powers, and measures which cannot be satisfactorily administered by the provinces (e.g. the Food and Drugs Act).

(*b*) Services for groups who are in the position of wards of the Dominion (e.g. Indians, and members or former members of the armed forces). It is, however, suggested that the Dominion should consider carefully the possibility even in these cases of buying provincial services rather than establishing its own medical services.[35]

(*c*) Leadership in establishing uniform standards where these are desirable (e.g. standards for trained personnel, definition of medical terms, compilation of statistics, standardization of drugs).

(*d*) Leadership in effecting co-operation between the provinces and co-ordination between services of the various provinces in order to avoid overlapping and deficiencies in health services. The Dominion Health Council on which all Provincial Departments of Health and the Dominion Department are represented, seems to be an entirely suitable means to these ends.

(*e*) The provision of auxiliary services for aiding the provinces (e.g. publication of suitable public health literature; provision of expert advisory services for such matters as sanitary engineering, epidemic diseases).

(*f*) Scientific research in medicine and public health generally. In this connection the establishment of a special medical research division of the National Research Council is to be commended. But it should be emphasized that centralization is no more necessary or desirable in medical research than in scientific research, and that the Dominion's function in promoting medical research may in some cases be best performed by assisting medical research in the universities.

4. Social Insurance and Contributory Social Services

The cost of modern social services is very high,[36] and a substantial charge on the general taxpayer. There seems to be every reason to suppose that the cost of Canadian social services will increase fairly rapidly[37] and it, therefore, seems probable that in Canada, as in other countries, an attempt will be made to relieve the taxpayers by assessing part at least of the cost of social services against those most likely to benefit from them and against those from whom a direct contribution can conveniently and equitably be exacted.

But, although relief to the general taxpayer may be one of the reasons for resorting to social insurance, this relief may be illusory rather than real. If contributions are exacted from individuals by way of premiums, the capacity of these individuals to pay taxes is reduced accordingly and it is likely that they will have to be relieved of some of the taxes which at present fall most heavily on low income groups (e.g. wage taxes, some forms of sales tax and some excise taxes). The resulting deficiency in the general revenue will then have to be made good by increasing those taxes which fall on higher income groups. If contributions are exacted from employers of labour, these contributions are distinguishable from a tax on the employer's wages bill only if it can be shown that the payment which he is called on to make is one which ought to be (though it is not now) part of his costs. It is on this ground that employers have been required to contribute to the cost of work-

[34] Certain aspects of medical practice come within Dominion jurisdiction over the criminal law.

[35] It is suggested that this method should be followed so far as possible in providing services for the health of Indians. Submissions were made to us indicating that in certain provinces Indian reservations were serious focal points of infection for tuberculosis and other communicable diseases, and that the province could do little to protect itself against this menace so long as medical services for Indians were under the control of the Dominion. A single public health control over the whole area of the province would appear to be highly desirable. (See Ex. 117, Brief of The Canadian Tuberculosis Association. Ev. pp. 732; 5461; 9640.)

[36] As has been pointed out at the beginning of this chapter, the total cost in 1936 was more than one-fourth of all governmental expenditures on current account.

[37] In spite of the careful wording of our terms of reference many of the briefs presented to us advocated increased expenditure for one or another of the social services, while none advocated that any existing service should be eliminated.

men's compensation. Before they were required to do so part of the cost of providing for the victims of industrial accidents fell on the general taxpayer, part was borne by the victims, part only was paid for by the employer either because of his actual negligence or in accordance with statutory provisions. It may be contended that the employer should be compelled to treat the cost—or part of the cost—of the unemployment incidental to his industry as one of its costs, just as he must treat the cost of keeping his plant idle. It may be argued that the minimum wage in industry should be one which will maintain the worker, on the average, in sickness and in health, for the duration of his life, out of the earnings of his working years and that an employer's contribution to health insurance or to old age pensions may constitute the most practical means of insuring that his employee's wages are adequate for this purpose and that (by this means and by his individual contribution) they are actually made to accomplish it.

It follows from what has been said that both the contributions of individuals and those of their employers are liable to be—in greater or lesser part—pure taxation, equivalent in the former case to an income tax on low incomes, in the latter to a tax on wage costs. This is true of the individual's contribution in so far as it exceeds the actuarial value of the risk of which he is relieved (e.g. compulsory insurance against unemployment is frequently instituted at substantial premiums in occupations in which the risk of unemployment is low, and more frequently still in the case of highly efficient employees whose individual risk of unemployment is very low). It is also true that the employer's contribution, if it makes his wage costs excessive, is to that extent a tax.[38]

Even if contributions can be equitably imposed the effect may be serious in the case of a marginal industry which is fighting for its life in an export market against competitors whose costs would not be increased by Canadian legislation, or in competition with Canadian competitors whose wages bill forms a lower proportion of their costs because of their extensive use of machinery. These effects may, it is true, be in the long run beneficial to society, though detrimental to a marginal industry, by guiding productive effort into more effective channels. But in elaborating plans for contributory social services, account must be taken of them. It is not unusual to find these consequences of social insurance mitigated to some extent by making some contribution from general taxation to the cost of the service. And they can also be mitigated by reducing taxes which are particularly burdensome to the industries affected.

But social insurance presents other aspects which are not primarily fiscal. It may be thought desirable that the beneficiaries of social services should feel that they are paying their own way and that they are not the recipients of public charity. It may be considered that some such feeling will act as a deterrent to demands for exorbitant social services. And it may be felt (as has been intimated above) that employers' contributions are a convenient supplement to minimum wage laws.

What has been said so far has been designed to show that the choice between contributory and non-contributory systems is neither simple nor easy. This consideration must be kept in mind in considering whether it is the Dominion Government or the provincial governments which should enjoy the power to make this choice. What has been said will also serve to show that if the choice is made in favour of contributory services the balance of advantage lies in some degree of uniformity throughout Canada and, therefore, in the collection of contributions by the Dominion, though these advantages differ as between different services. The principal reason for this uniformity lies in the readiness of industry in one province to complain if it is taxed for social services which are provided out of general taxation in other provinces or are not provided at all in other provinces. Even if there are offsetting advantages by way of the better health of employees, or their freedom from anxiety, and even if in the long run the employer's contribution may in the course of wage bargaining come to fall on the employees, the employer is quick to complain, and with all sincerity, that he is being placed in a position of competitive disadvantage in comparison with employers in provinces where there are not contributory social services. If competitive disadvantages in any province became sufficiently serious, its industries might migrate to sheltered provinces. A second reason why uniformity is desirable lies in the probability of some migration from one province to another. If one province had compulsory insurance and another did not, a migrant might be exposed to losing the benefit of

[38] This test is admittedly vague. Many employers do in fact contribute to the superannuation of their employees or to their insurance against medical costs. Others, perhaps, do the same thing by higher than average wages. A percentage contribution imposed on the former would not increase their present wage costs. The same contribution imposed on the latter would then be inequitable.

payments made prior to migration. Finally, if one authority, the Dominion, is making some deductions from wages and imposing some levies on wage bills it is administratively simpler and cheaper that it should make all such deductions and impose all such levies. Before proceeding to apply these general considerations to the individual services, it will be convenient to examine briefly American experience.

Social Insurance Aspects of the American Social Security Program.—The problem of developing effective social insurance measures under a federal system is not peculiar to Canada. The United States faces a similar problem. American experience, limited though it is in point of time since the national social insurance scheme is just getting properly under way, is enlightening for Canada.

The American Social Security Act provides for a comprehensive and detailed attack upon the problems of dependency and social welfare by a combination of insurance and non-insurance methods.[39] With the exception of contributory old age pensions the financial method adopted is that of federal assistance to the states by means of grants-in-aid measured in certain respects by fiscal need. Federal grants-in-aid are provided for various specific state assistance schemes, such as mothers' allowances, infant and maternal care, assistance for needy aged and partially dependent blind, public health services, etc. Insurance methods are provided for in two instances,—unemployment, and contributory old age pensions. It is with these last two services that we are primarily concerned here.

The United States in the establishment of unemployment insurance faced the same difficulty as Canada in that the matter appeared to fall under the jurisdiction of the states rather than of the United States. Had the states been left to themselves, progress in adopting insurance would probably have been slow because of the reluctance of a state to handicap its own industries in competition with those of other states. Further, uniformity of state systems would have been extremely difficult to secure. Hence Congress, by an ingenious use of the taxing power, attempted to bring about comparative uniformity of state systems, and to assure the initiation of unemployment insurance over the whole nation at about the same time.

Unlike the British unemployment insurance scheme which provides for contributions from both employers and employees on a flat rate irrespective of wages, the American Social Security Act of 1935 provided for a tax on payrolls (1 per cent for 1936, 2 per cent for 1937 and 3 per cent thereafter) of all industries with more than eight employees, with certain specified exceptions. But it provided for a rebate to the employer up to 90 per cent of the tax due to the national government for sums paid into approved state insurance schemes. In addition to prescribing conditions (in some respects alternative) which state schemes had to meet before deductions in federal payroll taxes were allowed, Congress also provided for grants-in-aid to the states for purposes of administration of their schemes. All states and certain territories took advantage of the situation, with the result that today there are 51 different schemes in operation, each separately administered.

Certain grave difficulties quickly appeared. Several state schemes became bankrupt, or virtually so, before they got into effective operation, because of lack of diversification of industry in the state which made it impossible to spread the risk sufficiently, or because the state's industries were peculiarly vulnerable to depression factors, or because the state scheme took in too many workers in very low income groups or provided for too short periods of employment before benefits were available, or for other reasons. Other serious difficulties have also appeared, among them: the problem of the transient or migratory worker who moves across state boundaries; the multiple tax returns required from firms operating in more than one state; inequalities in the burdens on industry, and on labour, as between different states; the multiplicity of administrative personnel, and hence relatively high administrative costs, owing to the large number of systems and partial duplication of federal with state officials.

Unlike unemployment insurance the contributory old age pension scheme (or old age insurance) is national, contributions being paid directly to the national government which also administers the scheme and pays benefits directly. The reasons for making contributory old age pensions a national rather than a state-subsidized system appear to have been primarily two-fold: first, the greater difficulty than in the case of unemployment insurance of using federal powers to bring all states into line at virtually the same time and, second, the administrative difficulties likely to arise under a collection of state schemes, especially in a labour

[39] For description and criticism of the American Social Security Act and its operation see: Millis and Montgomery, *Labour Risks and Social Insurance*, (New York, 1938); P. H. Douglas, *The Federal Social Security Act*, (New York, 1936); Bryce Stewart, *Planning and Administration of Unemployment Compensation in the United States*, (New York, 1938).

market where labour is free to move across state boundaries. For example, the administrative difficulties of adjusting accounts between states on behalf of an individual who, during his working life might have lived in many states, appeared to be insuperable. Consequently, despite constitutional doubts, a federal scheme was put into operation. It has since been upheld by the courts.

Unlike the British scheme which is based on flat rate contributions by employer, employee and the state irrespective of the wages received by the employee, the American scheme provides for contributions based on a percentage of wages. The scheme provided for contributions assessed against payrolls and wages equally, beginning at 1 per cent on each in 1937 and rising by stages to 3 per cent on each in 1949 (or 6 per cent of wages in all). The employer acts as collector for the employee's share. No provision was made at the outset for contributions by the government, but it is expected that ultimately, as the number of beneficiaries receiving annuities increases, contributions by government will be required. Annuities begin at the age of 65 and are paid out of the individual reserve credited to the annuitant.

The scheme will not, however, provide for all the aged or even all the needy aged. For many years to come annuitants will not have built up sufficient reserves to cover their needs after the age of 65; many low wage groups of workers and part-time workers will probably never accumulate sufficient reserves to carry themselves in old age even when the scheme is operating in full, and in general owner-workers are exempted from the contributory scheme. Thus, although the scheme covers about one-third of the nation and, therefore, spreads widely the promise of some measure of security in old age, it has not removed the necessity for non-contributory pensions, or for contributions by the federal government to the annuities of those with small reserves and in need. At present non-contributory pensions are provided, after a means test, by the states assisted by grants-in-aid from the federal government. Steps are, however, being taken to "liberalize" the federal contributory system in order to give larger annuities to needy aged directly, rather than indirectly through state non-contributory systems.

With the merits or the demerits of the scheme, or with its economic or financial consequences, we are not here concerned. For our purposes the sole point is that Congress decided that separate state schemes for contributory old age pensions were quite unworkable. The Supreme Court has upheld the Act largely on this ground. Said the Court: "The problem is plainly national in area and dimensions. Moreover, laws of the separate states cannot deal with it effectively. . . . A system of old age pensions has special dangers of its own, if put in force in one state and rejected in another. The existence of such a system is a bait to the needy and dependent elsewhere, encouraging them to migrate and seek a haven of repose. Only a power that is national can serve the interests of all."[40]

American experience with social insurance is not conclusive evidence for Canada, but it cannot be safely ignored by Canada. Unemployment insurance on a state basis, even when in operation in all states has proven far from satisfactory. One competent authority after an exhaustive survey of the subject concludes: "It may be predicted that complete reconstruction on a national basis will come, either by the evolutionary process or by drastic revision in time of stress."[41] The federal contributory old age pension scheme, on the other hand, has not been seriously challenged on the ground that it is in the wrong jurisdiction from the point of view of public finance or administration. Nor has it shown any tendency to drift towards state control.

UNEMPLOYMENT INSURANCE

We have recommended that provision for the employable unemployed should become the responsibility of the Dominion. It is almost ancillary to this recommendation that the Dominion should have power to enact a measure of unemployment insurance in order to reduce the burden to its general taxpayers. It would be out of place for us to go into the multitudinous details which have to be settled in any comprehensive scheme of unemployment insurance. But there are some general observations which can be made. In the first place no system of unemployment insurance will take care of all the unemployed at all times. There will always be some occupations which cannot conveniently be brought under an insurance plan, always some unemployed who have never been employed before (e.g. the very young), and always some unemployed who have exhausted the benefits to which they are entitled. So long as an unemployment insurance plan is kept on an actuarially sound basis (as contrasted with a plan which

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[40] *Helvering, Commissioner of Internal Revenue et al* v. *Davis*, 301 U. S. 619 (1937) at p. 644.

[41] Bryce Stewart, *op. cit.*, p. 550.

although called "insurance" is really a device for transmitting money raised by general taxation or by borrowing) there are bound to be many categories of labour which will remain outside its scope.[42] In the second place, there will always be unemployment insurance premiums which in essence tax those in safe employment for the benefit of those in exposed positions, and yet exempt other and richer groups from contribution to this purpose. The problem of seasonal labour raises peculiar difficulty in this respect for any unemployment insurance program for Canada. It is probably a counsel of perfection to suggest that each industry should pay its premiums at a rate proportionate to the hazard of unemployment in it. Yet otherwise "safe industries" are taxed to help exposed industries. Here, if anywhere, in the field of social insurance we find security financed by taxes on production disguised as premiums. But, in spite of all these considerations, there is probably a balance of advantage in favour of unemployment insurance and we may expect the Dominion to make some experiments in this field. Even if our main recommendation, that the care of employables who are unemployed should be a Dominion function, should not be implemented we recommend that the Dominion alone should have jurisdiction over unemployment insurance, for there are few provinces with sufficient diversification of industry to embark on such an enterprise with any confidence and it would be a great hindrance to the mobility of labour if men out of work were deterred from leaving a province in search of work because in so doing they would lose their insurance benefits.

It is not surprising, therefore, that it has been generally recognized that if unemployment insurance is to be successful in Canada it must be on a national basis. The National Employment Commission emphasized that "there are great, indeed decisive, advantages in a national, in contrast to a Provincial, system"[43] of unemployment insurance. The Commission des Assurances Sociales de Québec, as early as 1933,[44] pointed out that, although it is possible for member states in a federation to have schemes of their own, "nevertheless elementary prudence urges us to give a federal character to insurance against unemployment". In a memorandum submitted to the Executive Council of the Province of Quebec in February, 1939, by the Confédération des Travailleurs Catholiques du Canada, Inc.,[45] the following paragraph appears "La C.T.C.C. tient à redire au gouvernement fédéral qu'elle est en faveur d'un système d'assurance-chômage à base contributoire... notamment, en faveur d'une assurance-chômage contributoire, établie sur le plan national, suivant les recommandations de la Commission des Assurances sociales." After careful examination we are convinced that a system of unemployment insurance can be established which will in no way interfere with the provisions of the Quebec Civil Code concerning labour contracts and contracts of hiring. In our public hearings representations from most provinces and from many public bodies supported the view that unemployment insurance should be within the jurisdiction of the Dominion Parliament.[46] We have no hesitation in so recommending. We think, however, that the nature and extent of the federal power over unemployment insurance should be

[42] At the request of the Commission a study was made by the National Registration Branch of the Dominion Department of Labour to estimate, on the basis of the returns of the national register of persons on aid, the probable effects of unemployment insurance in dealing with the problems of relief. On the basis of an operating insurance scheme similar to that provided in the Employment and Social Insurance Act of 1935, and by an examination of the register of persons on aid in ten selected Canadian cities—Halifax, Montreal, Quebec, Hamilton, Toronto, Windsor, Winnipeg, Vancouver, Regina and Calgary—which covered between 60 and 65 per cent of the total in receipt of aid in the months under review, it was estimated that in September, 1937, 14 per cent of all persons in receipt of aid in these cities would have been cared for by insurance benefits, and in September, 1938, 18.1 per cent would have been so cared for.

[43] Final Report, p. 29.

[44] "Est-il possible de concevoir l'organisation de l'assurance-chômage sur une base provinciale dans un Etat fédératif comme le nôtre? Oui, et l'exemple du Queensland (Australie) et des Cantons suisses est là pour nous dire que cette possibilité existe. Toutefois, la prudence élémentaire conseille de donner un caractère fédéral à l'assurance-chômage. Il est urgent d'étendre les charges sociales sur l'ensemble d'un pays. Autrement, les provinces participantes se trouvent dans un état d'infériorité injuste par rapport aux non-participantes. Il ne faut pas oublier que les charges sociales doivent être incorporées dans le prix de revient de la production. Les provinces ne jouissant pas du privilège de la protection tarifaire, les industriels établis dans les limites de celle-ci ou de celle-là doivent nécessairement viser à la péréquation des charges sociales, s'ils ne veulent pas se faire les uns aux autres une concurrence intenable et, dans l'occurrence, déloyale.

D'ailleurs, on comprend facilement que l'établissement exclusif de l'assurance-chômage dans une province constituerait, pour les chômeurs des autres provinces, un puissant foyer d'appel et que bien vite cette mesure sociale deviendrait une faillite complète. Il faut tenir compte de l'absence de frontières entre les provinces et des facilités naturelles de migration à l'intérieur d'un même pays." *Sixième Rapport, Commission des Assurances Sociales de Québec,* p. 203.

[45] Mémoire de la Confédération des Travailleurs Catholiques du Canada, Inc., 1er février, 1939. A similar recommendation was made by the same association to the Federal Cabinet in a memorandum dated 15th December, 1938.

[46] Ex. 7, Brief of Man., Pt. VII, pp. 64-65; Ex. 140, Brief of N.S., p. 43, Ev. p. 3926ff.; Ex. 161, Brief of P.E.I., p. 46; Ex. 34, Brief of Sask., p. 277; Ex. 172, Brief of B.C., p. 352; Ex. 236, Brief of Edmonton Chamber of Commerce; Ex. 89, Brief of Canadian Manufacturers' Ass'n; Ex. 106, Brief of Trades and Labor Congress; Ex. 380B, Brief of Canadian Welfare Council; Ex. 401, Brief of Central Committee, Communist Party of Canada; Ex. 206, Brief of B.C. Council of Women; Ex. 205, Brief of Greater Vancouver and New Westminster Youth Council; Ex. 209, Brief of Vancouver Young Liberal Ass'n; Ex. 214, Brief of Canadian Ass'n of Social Workers, B.C. Branch; Ex. 28, Brief of Greater Winnipeg Youth Council; Ex. 350, Montreal Branch of Canadian Ass'n of Social Workers; Ex. 66, Brief of Regina Board of Trade.

defined with care and accuracy to prevent its extension under the theory of ancillary powers.

So long as cash payments only are provided there is no reason why insurance against unemployment resulting from illness should not be dealt with along with other unemployment, and we recommend that the Dominion should have the necessary power to do this.

CONTRIBUTORY OLD AGE PENSIONS

The increasing cost of the present non-contributory old age pensions system, both to the Dominion and to the provinces has already been pointed out.[47] Costs are likely to double within the next thirty years, apart from the possible lowering of the age limit or of other restrictions, or any increase in pension rates. Most countries which have adopted non-contributory old age pension schemes have sooner or later endeavoured to lower the cost to the general taxpayer by establishing pensions on a compulsory contributory or insurance basis. The probability of a demand for such action in Canada at an early date must, therefore, be taken into account.[48]

There can be little doubt that a compulsory contributory scheme of old age pensions would at present fall under provincial jurisdiction. In order to visualize the jurisdictional problem it will be of advantage to discuss some general features of contributory systems.

A compulsory contributory scheme may be devised to provide either flat-rate annuities, as does the British scheme, or annuities on different scales based on graded contributions as does the American system.[49] The former has the advantage of greater simplicity of administration, but if it is to be self-supporting, or nearly so, it must be based on premiums low enough to be paid by the lowest wage groups and in this case the annuities are likely to be small. The British scheme is based largely on this principle and the annuities paid are at a bare subsistence level. The American scheme, which is a modification of that followed by most continental European countries, provides for premiums based on a percentage of wages and salaries. This type of scheme involves more bookkeeping, but it has the great social advantage of keeping some relationship between earnings before retirement and annuities afterwards so that the annuitant who has worked at good wages is not reduced to a bare subsistence level immediately he retires from employment.

Either type of annuity is costly, though obviously the graduated type much more so. Hence no country assesses the employees for the full contribution necessary. The most usual method is that of a three-way contribution—from the employee, the employer and the state—in various proportions.[50] In any case the contributions assessed on employer and employee are likely to be considerable. The French system appears to exact about 4 per cent of wages, half paid by employer and half paid by employee; the German about 5 per cent similarly distributed between employer and employee; the American system when in full operation will levy about 6 per cent on wages, half likewise paid by employer and half by employee.[51]

The possibility of a Canadian province embarking on a contributory system is indeed remote. A province is scarcely likely to introduce a system which would tend, by increasing labour costs, to impair the competitive position of its industries vis-à-vis those of other provinces, and which at the same time is not likely to be popular with wage-earners or merchants. It is less likely to do so while non-contributory pensions, of which the Dominion pays three-quarters, are available for the needy aged. Theoretically, of course, the present system of non-contributory pensions might come to an end by ten years' notice of repudiation of present agreements by the Dominion. But it is patent to all that there is little, if any, possibility of the Dominion repudiating these agreements unless it can offer a more acceptable alternative.

But assuming that one or more or all provinces were prepared to establish contributory schemes, the administrative difficulties involved would be very great. At the outset there would be the difficulty of getting a common system adopted, or systems sufficiently close to one another to provide

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[47] See p. 32.

[48] Various submissions were made to the Commission urging compulsory contributory old age pensions, *e.g.*, Ex. 28, Greater Winnipeg Youth Council, p. 3; Ex. 206, B.C. Council of Women, p. 2; Ex. 285, Toronto Property Owners' Ass'n; Ex. 350, Montreal Branch of Canadian Ass'n of Social Workers (Ev. p. 8440); Ex. 89, Canadian Manufacturers' Ass'n, pp. 1-2; Ex. 380B, Canadian Welfare Council, p. 13; Ex. 383, United Church of Canada, p. 4. Also the following provinces: B.C. (Ev. p. 5553); N.S. (Ev. p. 4130); Ont. (Ev. pp. 7698-99); Brief of Sask., p. 332.

[49] Many variations may, of course, be provided for, *e.g.* pensions only may be paid or provision may be made to repay the estate of the contributor if he dies before reaching pensionable age; pensions may be equal, but contributions unequal and based on a percentage of wages, etc. But for the sake of clearness we have discussed only the two main types in their simplest forms.

[50] The state's contribution may consist in paying slightly higher interest rates on annuity reserves than on long-term bonds, and in assisting the lowest income groups unable to pay their full premiums by providing non-contributory pensions, or by making up the difference in a pension between the amount bought by the annuitant and the minimum pension recognized as required.

[51] *More Security for Old Age* (Report by Twentieth Century Fund, Inc., New York, 1937), pp. 46-47.

for equality of burdens on industry and on employees in different provinces. It would also be difficult to keep provincial systems on common standards after their introduction. Assuming the Dominion had jurisdiction over unemployment insurance, there is the further difficulty that the Dominion and the provinces might very well be levying similar contributions on payrolls and wages for different social insurance schemes. Co-ordination of provincial levies for social insurance with that of the Dominion, and with the Dominion tax system in order to prevent inequities to certain groups of taxpayers would be extremely difficult to attain and to preserve. There would be great difficulty in adjusting accounts for employees who moved across provincial boundaries during their working life, and without such adjustments provincial schemes would almost inevitably tend to immobilize labour.

It thus appears that if compulsory contributory old age annuities are to be established in Canada, the matter cannot be left to the provinces. They are scarcely likely to have very strong incentives to establish their own systems; it would be undesirable if they did establish them. It is clear that only the Dominion could institute a compulsory system which would be administratively simple, which would not interfere with the free movement of labour, which could impose burdens on industry equally irrespective of provincial boundaries (and likewise on labour), and which could be integrated with the tax system as a whole so as to prevent imposing unfair taxation on either industry or labour.

We recommend, therefore, that the Dominion be given jurisdiction to institute a compulsory system of old age annuities.[52] In so recommending, it must not be assumed that we are recommending the immediate adoption of such a system. As we point out elsewhere, the present tax system bears heavily on costs of production and on consumption.[53] A contributory old age pension scheme would increase this tendency, unless the scheme were preceded or accompanied by appropriate changes in the general tax system. Given the adoption of the Financial Plan which we recommend in the next section of this Report, a general reorganization of the present tax structure to shift the emphasis from taxes on costs to taxes on income should be possible. It is our hope that this course will be followed. In such an event a contributory old age pension system could be fitted into the general tax structure more equitably to workers and employers alike and with less danger of adversely affecting the national income.

We further recommend that the Dominion should be empowered to include in a compulsory contributory system provision for pensions for widows and orphans of annuitants and provision for pension on retirement from industry due to invalidity or permanent disability. Whether or not such provisions should be included are, of course, matters of policy, but we think it highly desirable that the Dominion should be enabled to do so. Such additional features to a contributory old age pensions system are important for promoting social security for dependents of workers, and have been widely adopted in other countries. We do not think they would in any way impair provincial autonomy in other social welfare matters, since they would simply provide cash benefits to dependants (or the annuitant in case of permanent disability). Indeed, such provisions in a contributory old age pension scheme would tend to relieve provincial budgets from their present burdens for mothers' allowances and the maintenance of orphan children.

But it is clear that a contributory system would not entirely supersede the need for non-contributory pensions. For many years to come no one would have accumulated enough to his credit to pay for the minimum pension, and this would have to be supplemented. There will always be some who, owing to irregularity of employment, will not accumulate enough to buy the minimum pension at the retiring age; and some who are never wage-earners at all and from whom it is impracticable to exact contributions (at double rates since they have no employer) by other means.

While it might be simpler from an administrative point of view to have all old age pensions—contributory and non-contributory—administered by a single authority, we see no strong objection to the continuance of provincial administration of non-contributory pensions, even if a contributory system were established by the Dominion. The dual system should not involve much duplication of staff, since non-contributory pensions are paid on the basis of a means test, and contributory on the basis of quasi-contractual rights. The number of pensioners on provincial rolls would, of course, decrease with the increase of those receiving annuities under the Dominion system, and it might well be that a province would find it desirable and

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[52] It is possible that a compulsory old age pension (or annuity) system might be grafted on to the present system of Dominion Government annuities under which an annuity may be purchased on very favourable terms.

[53] See Sect. B, Chap. VIII.

economical to withdraw from the administration of non-contributory pensions. Our recommendations later for a general constitutional provision permitting delegation of power by a province to the Dominion, or vice versa, would facilitate this change in the event of any province desiring to withdraw from the field and the Dominion being willing to accept the responsibility.

In this treatment of contributory pensions we have deliberately omitted discussion of many practical questions, as for example, whether reserves should be established, or premiums paid into general revenues, the state accepting the obligation to pay annuities when due; whether annuities should be available at ages lower than non-contributory pensions at the option of the annuitant; whether annuitants who had contributed less than the amount required to pay annuities equal to pensions under the non-contributory scheme should be paid something more than the amount of non-contributory pensions; and so on. But these are questions of policy. Our purpose has been simply to examine the problem of jurisdiction. Assuming the adoption of our recommendation as to jurisdiction, policy is entirely within the discretion of Parliament.

HEALTH INSURANCE

We have indicated elsewhere that since social and economic conditions and social outlook differ so greatly from province to province, we consider it essential that with certain exceptions responsibility for providing medical and hospital services and the choice of means should be left to the provinces.[54] Among possible means is that of health insurance.[55] The desirability of co-ordinating all medical services within the province under provincial control is a strong argument against the establishment of any scheme which would remove any large group within the province from provincial responsibility, as a Dominion health insurance scheme would do. Any health insurance scheme should be closely co-ordinated with other medical services, especially with those services providing medical assistance for low income groups.

Health insurance differs profoundly from unemployment insurance and contributory old age pensions (sometimes called old age insurance). Unlike unemployment insurance, health insurance is not subject to wide variations in demand; the risks are more easily estimated, and more constant. It is not subject to cyclical fluctuations, or sudden emergencies making widespread and prolonged drains on reserve funds, except that, in the event of widespread unemployment, premiums may be difficult or impossible to collect. Unlike contributory old age pensions, health insurance is not a compulsory savings scheme requiring individual accounts covering many working years. It is more nearly insurance properly so called—in the sense that it covers a contingent risk for a short term, and is terminable on a fixed date or on fixed conditions. No serious problems of reserves or of bookkeeping for a migratory labour force are thus likely to arise. We see, therefore, no insuperable obstacle to the establishment of health insurance by a province.

Ordinarily health insurance contributions are assessed against employers and employees though the state may contribute part of the cost. If income groups whose incomes are too low to enable them to pay part or all of their contributions are included in the scheme, the state may contribute the necessary additional amounts for these groups, or heavier contributions may be exacted from higher income groups. One method is that of exacting contributions from workers in proportion to earnings rather than on a per capita basis. Such a system has the merit of simplicity of collection and administration, but in so far as the contribution exacted from higher wage groups exceeds their benefits it is in effect an income tax on low incomes rather than an insurance premium.[56]

In the event of a province instituting a scheme for health insurance providing for taxes on wages and wage bills it might be found convenient to entrust the Dominion with the collection. If the Dominion were also levying taxes on wages and wage bills for other social insurance schemes (unemployment insurance and/or contributory old age pensions) it would appear to be highly desirable in the interests of economies in tax collections and tax compliance that collection be made by a single authority, and the Dominion is obviously the appropriate authority.

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[54] See p. 32.

[55] For discussion see Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance*, pp. 73*ff*. *Cf* Ex. 103, Canadian Medical Ass'n, Ev. pp. 3006-31; Ex. 206, Provincial Council of Women, British Columbia; Ex. 223, Memo. on Distribution of Health Functions between the Dominion and the Provinces (B.C.); Ex. 246, College of Physicians and Surgeons of Alta.; Ev. (Sask.), pp. 1412-14.

[56] We later recommend that the provinces should withdraw from the income tax field. But for the purposes of social insurance within the competence of the provinces (including health insurance) we have made it clear that our recommendation for the renunciation by the provinces of the right to levy income taxes does not include premiums for social insurance even if levied as a proportionate tax on wages.

In recommending provincial jurisdiction over health insurance we are aware of the possibility incidental to any social insurance scheme put into effect province by province that it may result in inequalities of taxes on industry as between provinces. We think, however, that regional differences in Canada militate against an acceptable national scheme. But experience with provincial social welfare legislation in the past has been that once an important reform is instituted in one province it has been adopted relatively quickly by others. This was the case with workmen's compensation; it might well be the case with health insurance and, if so, any inequalities of tax burdens as between provinces resulting therefrom would soon be evened out. There is also the possibility that if certain provinces should desire a uniform scheme, administered by the Dominion, they could delegate to the Dominion the authority to institute such a scheme provided that our recommendation for general power of delegation, which we deal with elsewhere, is implemented.

It must not, of course, be assumed that the Commission is in any way recommending the adoption of health insurance by the provinces. This is clearly a matter of provincial policy in which the province should have full discretion. The Commission is simply concerned with pointing out that, if a province should desire to adopt health insurance, the financial proposals made elsewhere in this Report are not a hindrance. Indeed, the Commission's Financial Plan, by improving the position of all provinces on current account, should make more possible than heretofore provincial expenditures on health insurance or other welfare measures.

Workmen's Compensation.—Workmen's compensation is already covered by insurance under provincial legislation, and there seems to be no valid reason for disturbing this arrangement unless it is found that reasons of expediency (e.g. ease of collecting all insurance premiums *en bloc*) make it convenient to do so. We recommend, therefore, that the Dominion should have power to take over this service in respect of any province if requested by that province to do so, but that in the absence of such request, the present provincial jurisdiction should be continued. It was suggested to us by the Chairman of the Workmen's Compensation Board for Manitoba that provincial legislation establishing boards under provincial compensation acts might be invalid as infringing the exclusive Dominion power to appoint judicial officers.[57] In view of the large sums under administration by these boards, and in view of the established value of the system of workmen's compensation which has been developed by the Canadian provinces, we think that provincial jurisdiction to create such boards should be clearly confirmed.

JURISDICTION IN SOCIAL INSURANCE —CONCLUSIONS[58]

We have concluded that two types of social insurance—unemployment insurance and contributory old age pensions—are inherently of a national character, but health insurance and workmen's compensation are not, and that in view of Canadian conditions, these can be financed and efficiently administered by the provinces. It is not improbable that in the course of time it may be desirable to finance other social services by social insurance methods, or that conditions would warrant national health insurance, or a national system of workmen's compensation. It would, therefore, seem desirable that rigidity in the matter of jurisdiction should be avoided. The simplest method would appear to be to provide for concurrent jurisdiction in social insurance. This would enable the Dominion and the provinces to adjust their respective responsibilities over social insurance from time to time in accordance with changing conditions. In view of the cost of social insurance programs, duplication of provincial and Dominion services would not likely result even if there were concurrent jurisdiction.

But it may well be that the simplest solution theoretically is not politically possible, though this is not for us to judge. In the event of concurrent jurisdiction over social insurance proving impossible of attainment, we recommend that the Dominion be given exclusive jurisdiction over the two services, unemployment insurance and contributory old age pensions. The general provision for a power of delegation by the Dominion to the provinces, or vice versa, which we recommend later,[59] should provide some measure of elasticity in jurisdiction over social insurance, should conditions warrant changes later.

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[57] Ev. pp. 721-25.

[58] For an interesting proposal that the division of jurisdiction between the Dominion and the provinces should be social insurance or contributory services for the Dominion, leaving the rest to the provinces, see Ex. 380A, 380B, Brief of Canadian Welfare Council, Ev. pp. 9172-9227.

[59] See p. 72.

5. The Financing of Provincial and Municipal Social Services

In the services which will remain exclusively to the province and its municipalities such as mothers' allowances, child welfare, and poor relief, we foresee expansion and hence rising expenditures. Further, under the division of function in the public health field which we have recommended, expansion in provincial and municipal expenditures is likely to be proportionately much greater than in those of the Dominion. Hitherto there have been wide differences in the financial ability of the provinces to supply welfare services. Moreover, in some provinces, and notably Quebec, religious organizations and private charitable associations have provided services which, in other provinces, were wholly or almost wholly state functions. For these and other reasons there have been wide differences in provincial expenditures, in the proportion of expenditures which the provinces compelled the municipalities to carry, and in the quality of state services. In the interests of national unity it is highly desirable that every province should be able to provide these services in accordance with average Canadian standards. Fiscal justice also demands that the municipalities should not be required to carry an undue proportion of the load. These desirable conditions might be attained in either of two ways: the provinces might be assisted by Dominion grants-in-aid (apportioned in accordance with provincial needs) for particular provincial services, or every province might be put in a fiscal position to determine its own policies and to finance its own services in accordance with its own peculiar needs. It is assumed that in either case the provinces would pass on some of the benefits to the municipalities. In view of the wide differences in social philosophy and economic and social conditions among the provinces, and in view of the fact that local, detailed, and highly personal administration is often required in the services which we have recommended should be left to the provinces, we think that the second method is highly preferable.

Our financial recommendations aim to place every province in a position to finance its own social welfare program in accordance with average Canadian standards, and to make such adjustments with its municipalities in the financing of this program as seems to it reasonable. Moreover, provision for periodical revision of adjustment grants and for emergency grants should enable each province not only to protect its standards in social services, but also to improve them at the average pace maintained by the provinces as a whole. This method we believe will insure to the provinces not only the capacity to provide reasonable welfare services for their people, but complete autonomy in the formulation of their social welfare policies, in the choice between alternative services and between alternative methods, and in the administration of their services.

This does not rule out the possibility of Dominion assistance by grants-in-aid for particular services (e.g. mothers' allowances or special health measures) should the Dominion so decide. It is indeed possible that Dominion assistance of this sort might be a means of improving, or co-ordinating, or equalizing particular provincial services, and it is possible that the national interest might on occasion justify such a step. Provided provinces are not thereby tempted to forgo or starve other needed services, we can see no serious objection to small grants-in-aid for particular provincial services, and especially for specialized health services where scientific standards for measuring efficiency are relatively easy to apply. But it should be noted that such grants-in-aid would to some extent be an alternative to the adjustment grants recommended in the Commissions's financial plan, and to increases in them.

Chapter II

LABOUR LEGISLATION *

Labour legislation is a convenient term covering such subjects as minimum age for employment; hours of work; the regulation of wages, and provision for minimum wages; trade unions and their status; conditions of work in factories, mines and elsewhere; employment offices; conciliation and arbitration in industrial disputes; technical education, apprenticeship, and youth training; workmen's compensation; a weekly day of rest. Some of these matters have been dealt with elsewhere because of their close relation to the problems of unemployment and of education.[1]

Labour legislation as such is not mentioned in the British North America Act and at present jurisdiction over these matters is divided between the federal and the provincial legislatures on lines that are not very practical. Roughly speaking the federal jurisdiction is ancillary to jurisdiction in other matters, e.g. railways, criminal law, and the implementation of treaties under section 132[2] of the British North America Act. Provincial control over labour matters rests largely on provincial jurisdiction over "property and civil rights".

The result of this division of authority has been concisely stated in a research study prepared for this Commission by Professor A. E. Grauer:—

> "The comparative survey of labour legislation in Canada . . . reveals the following general facts. First, there is a marked lack of uniformity in legislation as between the provinces. Second, no single international convention has been implemented by all the provinces, technically or in substance; and no province has put into effect the standards of a substantial number of international conventions. Third, no technique has been worked out for co-operation in bringing about more uniform standards of labour legislation or in implementing international conventions. There is nothing in the Canadian field to resemble the International Labour Organization in the international field. The device adopted by British Columbia in 1921 of passing legislation but stipulating that it should not come in force until other provinces had enacted similar legislation, has not been successful."[3]

Professor Grauer's opinion is that, upon the basis of the number of conventions of the International Labour Organization which have been ratified by various governments, Canada is relatively a backward country. He points out, however, that Canadian workers in fact enjoy better conditions than workers in many countries such as China and Japan whose records in the implementation of international labour conventions are better than that of Canada. From this he concludes that the enactment of legislation to implement labour conventions is hampered in Canada not by unwillingness to improve working conditions, but by constitutional difficulties arising from the present division of legislative power. The Dominion Parliament has, on occasion, been willing to act but powerless to do so, while individual provinces have been reluctant to take any action which might place their industries at a disadvantage in comparison with industries in other provinces.

It was contended before this Commission that the jurisdiction of the Dominion Parliament over labour legislation should be considerably enlarged.[4] One reason is the desire for uniformity in these matters throughout Canada, and another is the circumstance already noted that labour legislation which imposes a burden on industry can often be delayed in any one province by the argument that its adoption would place that province at a competitive disadvantage in comparison with other provinces. Yet those who were most anxious that the Dominion Parliament should have power to establish minimum standards below which no province might fall, were also desirous that any province which wished to establish higher standards and felt that it was economically in a position to do so, should not be prevented from acting.[5]

Provincial control over many phases of labour legislation is desirable for several reasons. The

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* For a comprehensive survey of labour legislation (Dominion and Provincial) see A. E. Grauer, *Labour Legislation* (mimeographed), and Appendix 5—Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec.*

[1] See as to unemployment p. 24, and as to education, p. 50.

[2] This section gives power to the Dominion Parliament to perform the obligations arising under treaties between the Empire and foreign countries.

[3] A. E. Grauer, *Labour Legislation*, p. 174. (Mimeographed.)

[4] *E.g.* Ex. 106, Brief of Trades and Labor Congress of Canada, p. 17; Ex. 394, Brief of Canadian Chamber of Commerce, p. 8.

[5] Evidence by representative of Trades and Labor Congress, p. 3131; Ex. 99 Brief of League for Social Reconstruction, p. 33, Ev. p. 2840. The Government of B.C. took a similar view (Ex. 172, p. 352, Ev. p. 5475; Ex. 192, Memo. B.C. Dept. of Labour, pp. 3-4). So also did the Government of N.S. (Ex. 140, p. 43, Ev. pp. 4190-91); the Ont. Minister of Labour (Ev. p. 7882) and the Man. Deputy Minister of Labour (Ex. 16, Memo. Man. Dept. of Labour). The Governments of Sask. and P.E.I. favoured Dominion jurisdiction over labour legislation (Ev. pp. 4518-19, Ex. 34, pp. 332-34). Numerous private organizations made similar recommendations.

relations of employer and employee, and notably such matters as apprenticeship, should conform to the general social outlook of the region. Further, situations may arise in labour matters in which prompt action may be needed and it may often be the provincial government which is the better able to act promptly and effectively. Men with a sense of grievance are naturally insistent on meeting with those in whose power it lies to take effective action to redress the grievance. In practice this may mean ministers rather than officials. There are many industries in which workers and employers find it more convenient to approach the provincial government than Dominion ministers in Ottawa.[6] Some of the industrial standards acts recently enacted by certain provinces require elaborate administrative machinery. An intimate knowledge of local conditions is requisite if detailed regulations are to be applied intelligently and modified both intelligently and promptly to meet unforeseen contingencies. This point has been well illustrated in the case of legislation providing for workmen's compensation and for precautions against industrial accidents which has long been administered by the provinces. Even if the possibility once existed of securing more economical administration of these types of legislation by greater centralization, economies could now be effected only at the cost of upsetting a considerable volume of provincial legislation.

Yet in other matters uniformity is desirable. Theoretically, uniformity could be achieved by agreement between the provinces implemented by joint legislation. But the difficulties of securing agreement between nine provinces and of effecting uniform changes in legislation enacted in this way are obvious. In labour matters where uniformity is desirable there is thus a strong case for jurisdiction by the Dominion Parliament.

Wages; Hours of Labour; Age of Employment

On three subjects in particular, minimum wages, maximum hours, and age of employment, basic uniformity of legislation throughout Canada would be highly desirable. In the first place, so long as there are wide differences between provincial laws on these subjects, there are strong incentives for a province with high standards on these matters to discriminate against the products of other provinces with lower standards in order to protect both capital and labour within the province from unfair competition from without. Legislation of this sort almost inevitably leads to retaliation, and in any case tends to impair freedom of trade between provinces. In the second place, federal jurisdiction over maximum hours, minimum wages, and age of employment, while not absolutely essential for administration of unemployment relief by the Dominion would facilitate effective and systematic action. Neither in the case of protecting internal freedom of trade, nor for purposes of handling unemployment relief, would complete and exclusive jurisdiction over these matters be required. It would be sufficient if the Dominion had authority to establish basic minimum standards in each case, leaving to each province the power to impose such higher standards as it desired. The power of the Dominion Parliament in these respects should, however, be precisely delimited because, as we have pointed out in our discussions of the social services, there is real danger to provincial autonomy if much latitude is left to the courts in deciding what legislative power is to be regarded as ancillary to a defined federal power.

The relationship between minimum wages and relief is especially close. If wages are lower, or little higher than relief rates, workers will be tempted to leave their employment and claim relief. This may be especially so in the case of men with large families, since their incomes from relief may be much higher than their wages if employed. Indeed, the test of willingness to work is meaningless, except in relation to a wage scale. On the other hand, when there is a labour surplus, employers may be tempted to pay wages below relief rates, leaving the state to make up the difference in relief. As was pointed out in hearings, this situation is especially liable to develop in the case of part-time employment.[9] If the Dominion assumes responsibility for relief of employables it would follow that it ought to have power to establish basic minimum wages in order to protect the taxpayer against abuses of relief by employee or employer.

[6] The evidence of the late Hon. M. M. MacBride, Minister of Labour for Ontario, on this point was (Ev. pp. 7883-84): "Dealing specifically with the question of industrial disputes may I express this opinion, that both the representatives of the employees and the employers invariably want to meet someone in authority. While the Minister might not be quite as capable as some of his officials—and I am quite frank enough to say that—they do want to see the Minister. He has to spend a good deal of his time in meeting delegations, small and large, and paving the way to a result that will finally be brought about by an official under his direction. Therefore, I question very much if we had an industrial dispute in British Columbia whether they could get that personal contact with the official at Ottawa, no matter how capable and sincere he may be—I think they would want to deal with the Minister in British Columbia, and I think they would want to deal with the Minister in Ontario, and so in the other provinces. That is our experience."

[9] Ev. pp. 7377*ff*.

Enforcement of Labour Legislation

Labour legislation requires vigilant enforcement, and in matters in which interprovincial friction may arise any suspicion that legislation is not being adequately enforced may lead to ill-feeling. In many cases the province is in a far stronger position than the Dominion for securing thorough observance of the law. For instance, the enforcement and modification of rules of safety in factories and mines can conveniently be combined with workmen's compensation. On the other hand the enforcement of minimum wage legislation could probably be very efficiently combined with any system of social insurance under which premiums were collected which were fixed as a percentage of wages. But, in a general way, enforcement seems to be appropriately a provincial problem.

Status of Labour Unions and Jurisdiction in Industrial Disputes

Our discussion of the status of labour unions and of conciliation and arbitration must be in very general terms. These topics are not as closely allied to financial problems as are other phases of labour legislation, and we have had very little evidence concerning them.[10] Such limitations as are imposed on the activities of unions of employers or employees by the criminal law are matters of federal jurisdiction, and the power of the Federal Parliament to give labour unions a certain status and capacity and to regulate the internal rights of their members is analogous to its implied power to incorporate companies with Dominion objects. On the other hand, the civil rights and liabilities of labour unions are, in general, determined by the provinces.[11] Some degree of uniformity in provincial legislation is highly desirable, but its attainment must be by agreement between the provinces as transfer of jurisdiction on such a subject to the Federal Parliament would present insuperable difficulties. We later propose regular Dominion-provincial labour conferences and these might be a convenient means of facilitating uniformity of provincial legislation in the matter of civil rights and liabilities of labour unions.

Since some industrial disputes are matters of merely local concern while others extend to two or more provinces the allocation of jurisdiction over arbitration and conciliation in such disputes presents great difficulties in the Canadian as in other federal systems. But these difficulties were not apparent in 1867 and were not foreseen when the British North America Act was drafted. The Dominion in 1907 attempted, in the Industrial Disputes Act, to exercise a wider jurisdiction than is possible under the British North America Act by purporting to deal with a number of public utilities only some of which were under federal jurisdiction. Although as a result of litigation in 1925[12] this Act was amended and its scope restricted, it cannot be said that it had caused serious inconvenience to the provinces while it had been believed to be law. All the provinces, except Prince Edward Island, subsequently passed enabling legislation (as to the constitutionality of which there appears to be some doubt) applying the amended Act to disputes within exclusive provincial jurisdiction. British Columbia has since repealed this legislation. But each province has its own legislation as well and, therefore, in some provinces there are two methods by which the same dispute may be dealt with: one under the federal Act as extended to the province, the other under provincial legislation.[13]

This overlapping of jurisdiction is apt to lead to dissatisfaction among employers and employees and to friction between governments. One side to a dispute may wish to call in the Dominion service, the other the provincial. It has even happened that both have been called in.[14] Even if both sides have accepted the same service, the side dissatisfied with the final result may be inclined to feel that it would have been better off if the other conciliation service had been employed. In different disputes in somewhat similar industries, decisions based on different principles may be reached because the same conciliation service is not used.

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[10] They are considered in our research studies: for status of labour unions see A. E. Grauer, *Labour Legislation* (Mimeographed), Ch. V.; and Appendix 5—Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec*, Ch. IX; and for conciliation and arbitration, see Grauer, Ch. IX, and Minville, Ch. IX

[11] *Ibid.*

[12] *Toronto Electric Commissioners* v. *Snider* [1925], A.C. 396.

[13] In point of fact the overwhelming majority of disputes are dealt with by provincial conciliation. See the *Labour Gazette* for March, 1938, where at p. 253 there is a detailed list of the 278 strikes and lockouts in Canada in 1937. Of these only 8 appear to have been settled under the Dominion Industrial Disputes Investigation Act, while over 60 appear to have been settled by the use of provincial machinery, the balance being settled in some other manner.

[14] The strike of coal miners in Minto, N.B., in 1937 illustrates these two points. The provincial conciliation service dealt with the situation for some time but its actions were not agreeable to the United Mine Workers who asked the Dominion Department of Labour to appoint a conciliation board under the Industrial Disputes Investigation Act. This request was granted, an action that was a "great disappointment" to the Attorney-General of New Brunswick. (See *The Gazette*, Montreal, Dec. 17, 1937.)

In some cases (other than those within the legislative competence of the Dominion as defined in the Snider case) a Dominion conciliation service can achieve beneficial results which would not be possible for a provincial service. Dominion officers with some knowledge of conditions in all provinces may be in the best position to handle disputes in industries which are found in two or more provinces. Such industries may have an interprovincial character resulting from the existence of labour unions, employers' associations, or controlling financial interests organized on a national scale. Consumers in one province may be seriously affected by the prolongation of an industrial dispute in another province. There are, therefore, possibilities that different action by different provincial services, especially if a dispute is in progress at the same time in two or more provinces, may prolong industrial unrest and attendant economic dislocation.

We fully recognize that circumstances in some provinces will tend to make the range of disputes over which authority can conveniently be transferred to the Dominion smaller than in others. We recommend, therefore, that it should be made possible for any province to transfer to the Dominion jurisdiction over conciliation and arbitration in any category of industrial dispute. Should a transfer be made it will be important that any such category should be clearly defined in order that no possibility of dual jurisdiction should exist.

International Labour Conventions

In one very important respect the situation with regard to labour legislation has changed completely since Confederation. For the last twenty years Canada has been a member of the League of Nations and of the International Labour Organization. Labour conventions of an international character are adopted from time to time and member-states of the International Labour Organization are invited to ratify them. Canada among other nations has ratified a number of these conventions. To give effect to their provisions, which are designed to establish uniform labour standards throughout the world, requires legislation which it is not within the competence of the Parliament of Canada to enact,[15] and which the provinces are under no legal obligation to enact. It might have been supposed that on joining an international organization a state would at once alter its constitution to conform to the new relationship so that it could play its part effectively in the activities which it recognized as desirable. But no such action was taken by Canada. This situation is entirely unsatisfactory and we recommend that the Dominion and the provinces together should decide how International Labour Conventions should be implemented. It seems that the best method would be for the provinces to give to the Parliament of Canada power to implement such international labour conventions as the Government of Canada has ratified, or may ratify in the future.[16]

These labour conventions are the work of representatives of many countries, and it is inconceivable that an international convention could be formulated as part of a colourable attempt by the Dominion to encroach upon provincial jurisdiction. We do not feel, therefore, that (if the Dominion is given full power to implement these international labour conventions) there is any legitimate cause for fear that this method will be used for the purpose of invading provincial rights. It is true that existing provincial jurisdiction may be curtailed to some extent, but only in cases in which a large number of sovereign states have agreed to accept uniform labour standards, which they consider should prevail throughout the whole world.

The same considerations do not apply to the power to implement treaties which may be concluded between Canada and some other single country, and what we have said about the jurisdiction to implement international labour conventions must not be taken to apply to the more general issue of legislative competence to implement Canadian treaties, which we consider is outside our terms of reference. A number of submissions made to the Commission argued that the recent accession of Canada to the status of a fully self-governing nation required that the Dominion Parliament should have power to implement such treaties as Canada's international status enabled her to conclude.[17] In these submissions the inability to implement international labour conventions was quoted as a striking example of the difficulties arising from the absence of such a power. Our

[15] See decision of the Privy Council, *Attorney-General for Canada* v. *Attorney-General for Ontario*, [1937], A.C. 326.

[16] This might be done by constitutional amendment, or, if our general recommendation providing for delegation of power by a province to the Dominion or *vice versa* is adopted, by delegation.

[17] Ex. 100, League of Nations Society; Ex. 106, Trades and Labor Congress, p. 17; Ex. 386, Canadian Legion, p. 4; Ex. 99, League for Social Reconstruction, p. 33; Ex. 257, Alberta C.C.F. Clubs, p. 13; Ex. 205, Greater Vancouver and New Westminster Youth Council, p. 2; Ex. 209, Vancouver Young Liberal Ass'n; Ex. 210, C.C.F. (B.C. Section); Ex. 28, Greater Winnipeg Youth Council, p. 2; see also brief of Sask., p. 330, Ev. pp. 2279-81.

proposal that the Dominion Parliament should have power to implement these conventions will meet this particular difficulty, but it does not touch the more general issue raised in these submissions.

Dominion-Provincial Labour Conferences

We have already referred to the lack of uniformity in labour standards among the provinces, and have pointed out the undesirability of undue centralization of jurisdiction as a means of effecting uniformity. The alternative method is co-operation and agreement among the provinces on labour standards, but heretofore there has been no particular means for facilitating co-operation, and it has, therefore, been lacking. There is also lack of co-operation between the Dominion and the provinces in labour matters generally. As we point out elsewhere a similar situation has hitherto existed in the matter of Company Law, but this condition seems to have been remedied by co-operation between companies branches of provincial governments and the Dominion Secretary of State's Department to work out a uniform Companies Act. We think that much could be done to promote uniformity in labour legislation in a similar way by co-operation among the Departments of Labour of various governments. Moreover, there are many other labour matters in which all governments, including the Dominion, have a common interest, as, for example, the administration of labour legislation, investigation and research in labour problems, and the preparation of statistics in labour matters.

The situation appears to call for regular conferences of representatives of Labour Departments. A conference of this sort did indeed meet in May, 1938, and appears to have been highly successful.[18] We commend this step, and we think that annual conferences, either of officials of Labour Departments meeting in a separate conference, or as part of a general and regular Dominion-Provincial Conference should be carefully considered by the appropriate authorities. Such a conference should go far to facilitate uniformity in labour legislation and to promote a better understanding among governments of their respective labour problems.

Conclusions

It will be convenient to summarize here our conclusions and recommendations:—

1. In order to protect the principle of freedom of trade between provinces and to facilitate the handling of relief for employables by the Dominion, the Dominion Parliament should have jurisdiction to establish basic minimum wages and maximum hours of labour, and to fix the age of employment, leaving to any province jurisdiction to raise minimum wages, lower hours of labour, or raise the age of employment if it so desires. But, as noted previously, the powers of Parliament should be precisely defined in order to protect the autonomy of the provinces.

2. In the case of industrial disputes, provinces should be empowered to delegate jurisdiction to the Dominion over any category of industrial disputes now within provincial jurisdiction.

3. The Dominion should be empowered to implement any labour conventions of the International Labour Organization. It should be understood, however, that we do not here make any recommendations with respect to treaties in general.

4. Frequent and regular conferences should be held between Dominion and provincial Departments of Labour.

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[18] In May, 1938, the first conference of the Canadian Association of Administrators of Labour Legislation was held in Ottawa. The Association is made up of the officials of the various Labour Departments in Canada. Its objects are "to serve as a medium for the exchange of information and encourage co-operation among its members; to promote the highest possible standards of law enforcement and administration; and to attain uniformity of legislation and regulations thereunder." It is possible that this Association may bring about more uniform legislation as between the provinces and better enforcement. A. E. Grauer, *Labour Legislation* (mimeographed), p. 174.

Chapter III

EDUCATION

Education calls for separate treatment from other social services both because of the nature of the subject and because it was expressly assigned (subject to certain controls in section 93 of the British North America Act) exclusively to provincial jurisdiction in 1867. But the expansion in the concept of education since 1867 has been as unexpected as the expansion in social services generally. In effect education is no longer thought of as concerned entirely with the instruction of the young during the highly formative period of life—instruction which is of decisive importance as regards religious training and the preservation of language and culture. Training for adolescents and adults is given today on a scale hardly anticipated in 1867, and the development of the radio and of organized research has brought new techniques into educational activities. Thus education, like the social services, has developed aspects which have led to action by the Dominion and which have been the grounds for many representations to this Commission by organizations in addition to the representations of provincial governments.[1]

There are some Dominion functions such as military training, agricultural training, and radio programs which indirectly invite excursions into the educational field. At the same time, financial considerations have led the provinces to welcome help from the Dominion in matters such as technical education and youth training. In other directions cultural activities of the Dominion (art collections, museums, libraries) have an educational aspect.

The recommendation which we have made elsewhere that the Parliament of Canada should have full power to provide unemployment aid for those recognized as employable by an employment service under Dominion control, would, if it were acted on and if the Parliament of Canada proceeded to deal with unemployment aid, make the training of unemployed youth a matter of even greater federal concern than at present. While the Dominion has a particular interest in technical education and in youth training, it is the function of the provinces to help in forestalling unemployment by providing an ordinary education of such a character as to turn out young men and women likely to secure employment.

Since the Dominion would delimit from time to time the extent of the liability which it was prepared to assume in granting unemployment aid (e.g. the age at which it would accept youths as "employable") it might make its help contingent on reasonable co-operation by the provinces. It is safe to assume that the provinces will be willing and ready to offer their full co-operation both in providing a suitable education for all and in contributing to the training of those who, at the age of recognition as employable, may be found to stand in need of further training. The needs of the provinces for vocational and technical training are, of course, part of their general fiscal need.

We have already said that the instruction of the young during their formative years is a matter which the provinces must continue to control (subject, of course, to the safeguard for religious minorities provided in the British North America Act and amendments). A free hand in something so important to the social and cultural life of the people seems to us to be vital to any provincial autonomy worthy of the name, and it is obvious that any attempts to alter the existing arrangements would meet with powerful opposition and would provoke profound resentment. But it has been suggested to us that in upholding the freedom of choice of a territorial unit viz., the province, we may be disregarding the freedom of choice of

[1] Ex. 24, School District of Winnipeg No. 1; Ex. 25, Man. School Trustees' Ass'n; Ex. 26, Man. Teachers' Federation; Ex. 29, Catholic Minority of Man.; Ex. 61, Sask. School Trustees' Ass'n; Ex. 62, Sask. Teachers' Federation; Ex. 97, Canadian Teachers' Federation; Ex. 101, Canadian Association for Adult Education; Ex. 183, B.C. School Trustees' Ass'n; Ex. 184, Report on School Finance in B.C.; Ex. 208, Catholic Minority of B.C.; Ex. 244, Alta. School Trustees' Ass'n; Ex. 245, Alta. Teachers' Ass'n; Ex. 289, Ont. School Trustees' and Ratepayers' Ass'n; Ex. 291, Ont. Teachers' Council; Ex. 344, Mémoire de la Société Saint-Jean-Baptiste de Montréal endorsed and approved by La Société Saint-Jean-Baptiste des Trois-Rivières, L'Association générale des étudiants de l'Université de Montréal, Les Chevaliers de Carillon, L'Association Canado-Americaine, Les Patriotes de Rosemont, L'Association des hôteliers de la campagne de la province de Québec, and L'Union des vétérans canadiens; Ex. 347, Provincial Association of Protestant Teachers of Que.; Ex. 351, Comité permanent des Congrès de la langue française; Ex. 352, Les Acadiens et les Canadiens-français des provinces Maritimes; Ex. 353, Les Canadiens-français du Manitoba; Ex. 354, Les Canadiens-français de la Saskatchewan; Ex. 355, Les Canadiens-français de l'Alberta; Ex. 379, N.B. Teachers' Ass'n; Ex. 400, Roman Catholic Separate School Trustees' Ass'n of Ont.

individuals, viz., the parents. It has been urged upon us that the existing safeguards for religious minorities should be extended so that Roman Catholic minorities in every province may be free to insist that their taxes for education be used for the upkeep of separate schools.[3] It was further urged that adequate time should be provided in the school curriculum for religious instruction during school hours. These representations indicate the existence in several provinces of a sense of grievance which may well contribute to national disunity as well as to lack of harmony within the province concerned. But we are compelled to say that it does not fall within our terms of reference to advise the provinces as to what course they should pursue. Representations by persons and organizations interested should be made to the individual province concerned, which alone, except as provided by section 93 of the British North America Act, has jurisdiction over matters of education.

Many representations have been made to us that financial help should be extended by the Dominion to the provinces for various purposes, such as scholarships,[4] technical training,[5] grants to be used for general educational purposes provided that the provinces did not reduce their own expenditure on education.[6] These representations appear to have been inspired largely by consternation at the reductions in educational expenditure which certain provinces, under the stress of the depression, have felt compelled to make. It has even been contended that the Dominion is bound to see that there is equal educational opportunity (as far as is practicable) for every Canadian child.[7] We have the deepest sympathy for these views which have been advanced by many of the organizations most closely associated with education in Canada, and we share to the full the regret that, especially in recent years, education has been terribly neglected in many of the poorer parts of the country and that wholly disproportionate sacrifices have been imposed on those who have devoted their lives to this important public service.[8] But the representations appear to us to go too far in denying the right of each province to decide the relative importance of expenditure on education and expenditure on other competing services. It is our hope that provision can be made for the fiscal needs of all provinces, including within those needs provision for the education of the young. Our financial proposals aim at placing every province in a position to discharge its responsibilities for education (on a scale that is within the means of the people of Canada) if it chooses to do so. Once this position is established it seems to us best that education, like every other form of welfare service in a democratic community, should have to fight for its life, and that a generous provision for the education of the children of the nation should depend, not on any arbitrary constitutional provision, but on the persistent conviction of the mass of the people that they must be ready to deny themselves some of the good things of life in order to deal fairly by their children. Hence we do not think that it would be wise or appropriate for the Dominion to make grants to the provinces ear-marked for the support of general education.

A second type of representation has been concerned with the use of relatively small grants from the Dominion to safeguard and stabilize certain phases of education which are believed to be of peculiar national importance. We have expressed our objection to grants for elementary and secondary education where any suspicion of Dominion interference would seem to us dangerous; but it may be of use to outline the sort of thing which might be accomplished by such methods in other directions where the same objection does not apply. The best illustration seems to us to be found in the field of university education, with which we are all personally familiar. But, precisely because

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[3] Ex. 29, Catholic Minority of Man.; Ex. 208, Catholic Minority of B.C.; Ex. 344, La Société Saint-Jean-Baptiste de Montréal; Ex. 351, Comité permanent des Congrès de la langue française; Ex. 352, Les Acadiens et les Canadiens-français des provinces Maritimes; Ex. 353, Les Canadiens-français du Manitoba; Ex. 354, Les Canadiens-français de la Saskatchewan; Ex. 355, Les Canadiens-français de l'Alberta; Ex. 400, Roman Catholic Separate School Trustees' Association of Ont. It was also suggested in evidence by the representative of the Roman Catholic Separate School Trustees' Association of Ontario that any Dominion assistance for education should be apportioned between Protestant and Roman Catholic schools (Ev. pp. 9712-14). As we are not recommending any such grant, this issue does not arise.

[4] *E.g.* Ex. 97, Brief of Canadian Teachers' Federation, p. 16, Ev. pp. 2713-19. See also Brief, *State Scholarships in Canada by* Canadian Student Assembly.

[5] *E.g.* Ex. 172, Brief of B.C., p. 352; Ex. 8, Brief of Man., Pt. VIII, p. 56; Ex. 140, Brief of N.S., pp. 134-37.

[6] Ex. 97, Brief of Canadian Teachers' Federation, pp. 11-14; Ex. 245, Brief of Alberta Teachers' Ass'n, p. 5; Ex. 347, Brief of Protestant Teachers of Que., Ev. p. 8367. See also Ex. 161, Brief of P.E.I., and Ev. pp. 4464-67, p. 4471. Compare evidence (Ont.), p. 7687.

[7] Ex. 97, Brief of Canadian Teachers' Federation, p. 3; Ex. 357, Brief of N.B., pp. 37, 39, Ev. pp. 8648-51; Ex. 62, Brief of Saskatchewan Teachers' Ass'n, pp. 4-6; Ex. 28, Brief of Greater Winnipeg Youth Council, pp. 2-3; Ex. 257, Brief of Alberta Youth Congress, p. 2; etc.

[8] In Saskatchewan the reduction in teachers' salaries was most severe. The total paid in salaries to teachers was reduced from $8 million in 1930 to less than $4 million in 1934 (Ex. 34, Brief of Sask. p. 52). The total salary paid to rural teachers in Saskatchewan declined from $4,537,000 in 1929 to $1,939,000 in 1934 (Ex. 62, Brief of Saskatchewan Teachers' Federation, p. 9).

of our own close connections with Canadian universities, we are refraining from making a recommendation on this subject.

Successful university administration requires some assurance of a moderately stable budget over a reasonable period of time. One reason is that important contractual commitments have to be made for a fairly long period in advance, and that reasonable security of tenure is as necessary for good university instructors as it is for good civil servants. Academic freedom itself, which is an important ingredient in the democratic structure of our country, requires that in institutions supported by the state no appointment should be directly or indirectly at the mercy of political pressure. The efficient functioning of universities in all regions of Canada (and, therefore, in all provinces of Canada) is essential if some equality of influence in the national life is to be maintained as between these regions. The extinction of a provincial university would strike a heavy blow at the importance of that province in the next generation of Canadian history.

It is this last consideration which explains why the Western Provinces have undertaken to maintain universities at a time when their own revenues were far from assured, and when it was barely practicable to endow such an institution with the assured income necessary for its efficient functioning. It explains why, all things considered, almost astonishing efforts have been made to preserve these institutions during the depression even when masses of people were at the verge of destitution.

It is worth remembering that it was to the thoughtful generosity of a foreign endowment that the four universities of Western Canada were indebted for help during three critical years which enabled them to survive this period without complete loss of initiative.

In these circumstances it is conceivable that even the provinces might welcome a small Dominion grant to their universities made contingent on the maintenance over a period of some years of the provincial grants to the same institution and on the preservation of high academic standards. If this is the case, a relatively small Dominion annual grant divided among the provinces in rough proportion to their population for the benefit of institutions which receive help from the state might play a peculiarly useful part in our national life. The additional funds, while preferably to be spent at the discretion of the university, would make it possible (wherever this appeared to academic authorities the most useful course) to provide scholarships and bursaries which would bring its opportunities within the reach of poor but able students.

The next point which we have to make is illustrative of the importance of universities in the national life of Canada. Among the activities of the Dominion government which possess an educational character is the organization of scientific research in the physical sciences under the National Research Council. It is unnecessary to expatiate on the excellent work which the Council has been doing in close co-operation with Canadian universities upon whom it is largely dependent for its personnel. It has been represented to us that analogous research work in the social sciences might be organized, and that, in addition to the Dominion Bureau of Statistics, we might have a Social Science Research Council which would co-ordinate and in some degree direct the research work in these sciences which is being done in Canadian universities and elsewhere.[9] There is a real need for some such institution in Canada and it could serve a most useful purpose in analysing the social problems with which current legislation is designed to deal.

Attention has also been called to the great need for a national library in Canada.[10] While we are in sympathy with such a project we feel that it is a matter of policy on which it would not be appropriate for us to make a positive recommendation. But we wish to point out that this is another example of an educational or cultural activity which, if judged expedient, could be appropriately undertaken by the Dominion government.

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[9] Ex. 231, Memo. on Research in the Social Services, Ev. pp. 5858-64.

[10] Ex. 211, Brief of B.C. Library Ass'n; Ex. 294, Brief of Ont. Library Ass'n.

Chapter IV

THE REGULATION OF CERTAIN ECONOMIC ACTIVITIES

The British North America Act, 1867, divides the field of economic regulation like that of social welfare between the Dominion and the provinces. On the one hand, the Dominion has extensive regulatory power over economic activities through its jurisdiction to regulate "trade and commerce", and such matters as "interest", "banking", "weights and measures", "bills of exchange and promissory notes". On the other, the provinces have the proprietary right over natural resources, and have as well considerable regulatory power over economic activities through their exclusive power over "property and civil rights within the province", "the incorporation of companies with provincial objects", "generally all matters of a merely local or private nature within the province", and the right to issue licences. This division of jurisdiction over economic life has occasioned considerable friction betwen the provinces and the Dominion; in some cases it has induced overlapping of services between governments; in some it has greatly hindered effective governmental action in dealing with economic problems.

Ideally, we should, perhaps, have begun with an examination of the whole field of economic life under modern conditions, and have based our recommendations as to jurisdiction on this examination, ignoring the settlement of 1867. But we have considered that a more practical approach would be to concentrate our attention on certain specific problems of jurisdiction brought to our notice in our public hearings. We feel that, in particular, five problems in this field demand examination; the marketing of natural products; the regulation and incorporation of companies; fisheries; the regulation of insurance; and the problem of freedom of trade between the provinces. As in the case of the social services, we have assumed that we should not recommend any change in jurisdiction except for strong and compelling reasons. In certain instances we recommend a new method of approach by delegation of powers.

1. Marketing of Natural Products

The term "marketing" is an economic or commercial, rather than a legal concept, and describes a process which may involve many steps and transactions. This process does not fall easily under any head of jurisdiction in section 91 or section 92 of the British North America Act. It straddles the line between provincial and federal fields and falls in certain aspects under several of the enumerated powers in both sections 91 and 92. Some phases of marketing fall within the Dominion jurisdiction over "trade and commerce", "copyright", "patents of invention and discovery", "weights and measures", "the criminal law", and probably also under the Dominion taxing power. In certain aspects marketing also falls under the provincial jurisdiction over "property and civil rights within the province", "matters of a merely local or private nature in the province", "direct taxation within the province", and "shop... and other licences".

In the broad meaning of the term, "marketing" might include buying and selling, organization of buyers or sellers, prices, grades and standards, market and other commercial practices, etc. While we are fully aware of these broader implications of the word and of recent developments in Canada and elsewhere of a trend toward fuller commercial regulation, we have, none the less, limited our discussion of marketing to the field of natural products. We do this both because virtually no other phase of the subject was raised in our public hearings, and because a wide variety of other problems engaged our time and attention. But in thus limiting our discussion we do not mean to imply that there are no other phases which may require attention or that changes in jurisdiction over certain other aspects of marketing (such as the regulation of prices) may not be needed in the future. We have merely concentrated on pressing problems.

We have already made reference to the fact that demands for social legislation have been made on governments which were not contemplated in 1867. In commercial matters there has likewise been a growing demand for governmental interference, which, though not requiring the same governmental expenditures as the social services, may profoundly affect the national income. These demands could not have been foreseen at the time of Confederation. In 1867 most trade within Canada was on a small scale and the buyer and seller stood in positions of comparative equality. But as the

Canadian economy became more complex and the volume of sales and the distances to markets increased, the old equality of bargaining position between buyer and seller was disturbed to the disadvantage particularly of the small producer of natural products. Likewise in foreign trade there was little need in 1867 for standardization of products because foreign trade consisted largely of staples in bulk, but as competition in foreign markets increased and modern systems of merchandising through organized exchanges developed, the need arose for grading and standardization of products. Early governmental activities were directed toward the encouragement and assistance of producers of natural products in the use of better methods in order to increase and improve production.[1] Later legislation sought to establish grades of quality, standard packages, and a system of accurate marking for a variety of natural products, including live stock, fruits, vegetables, fish, and dairy products. In more recent years there has been a demand that the state should seek to assure minimum prices to producers by organizing and controlling the production and marketing of natural products, and both the Dominion and the provinces have attempted to do this by legislation. State interference of this character is quite foreign to the laissez faire theories which dominated in 1867 and which undoubtedly influenced the Fathers in their distribution of powers between the Dominion and the provinces. It is therefore not surprising that it should have encountered constitutional difficulties.

Under the provisions of the British North America Act, which have already been quoted, the provinces had exclusive legislative power over "property and civil rights" and local matters within the province, and, therefore, alone could deal with many phases of marketing which were intra-provincial in their scope. The supply of milk to large cities is an example of this type of marketing regulation. The provinces, however, had no power to legislate concerning interprovincial and foreign trade, but in this trade the need for uniformity of standards and accuracy of grading may be even more essential than in local trade. Various attempts were made by the Dominion to establish standards and grades but with little success except for wheat. The prime difficulty encountered by both provincial and Dominion legislation arose from the fact that grading of many products to be effective must take place when the individual producer first sells his produce, but that then it is often impossible to say whether the particular articles will remain in local trade or will pass into interprovincial or export trade. A similar constitutional difficulty was encountered in recent legislation designed to aid producers by enabling them to establish marketing boards financed by the imposition of licence fees. Dominion legislation of this type was held invalid because of its interference with local trade.[2] Provincial legislation of this type has been held to be valid[3] but it is applicable to commodities whose chief market is local and would probably be inapplicable to commodities entering largely into interprovincial or foreign trade; it might even be possible that provincial legislation which was originally valid would become invalid if the commodity concerned ceased to be merely the subject of local trade and came to be widely sold in foreign markets.

It is unnecessary to examine the lengthy series of legal decisions which have held invalid various attempts to enact marketing legislation. Dominion statutes have, in general, been held invalid because they interfered with local trade; provincial statutes have been invalidated because their provisions purported to interfere with interprovincial and foreign trade. A number of devices have been employed in an attempt to circumvent these constitutional difficulties. Of these the most important was the device of enabling legislation. The Dominion would pass a statute in general terms and the provinces would pass enabling acts which provided that any provisions of the Dominion act which might be ultra vires were declared to have the force of law in the province.[4] The validity of the device of enabling legislation has not been decided by the Supreme Court of Canada or the Privy Council, but it has been determined in three decisions of provincial appeal courts[5] that the provincial enabling acts did not remedy the defects in the Dominion statute. The basis of these decisions appears to have been that the provincial legislatures cannot by a subsequent act give validity to a Dominion statute which was invalid when it was enacted, and that delegation of legislative power to Parliament was beyond the provincial power.[6]

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[1] See J. A. Corry, *Growth of Government Activities Since Confederation.* (Mimeographed.)

[2] *Re Natural Products Marketing Act* [1937], A.C. 377.

[3] *Re British Columbia Natural Products Marketing Act* [1937], 4 D.L.R. 298. *Shannon* v. *Lower Mainland Dairy Products Board* [1938], A.C. 708.

[4] See Ex. 252, Brief of Canadian Chamber of Agriculture, for details of various enabling statutes.

[5] *Rex* v. *Zaslavsky* [1935], 3 D.L.R. 788; *Rex* v. *Thorsby Traders* [1936], 1 D.L.R. 592; *Rex* v. *Brodsky* [1936] 1 D.L.R. 578.

[6] See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction.*

Doubts as to the constitutionality of enabling legislation have led to its virtual abandonment. In its place a new device which might be termed "conjoint legislation" has appeared. The provincial legislation, dealing solely with transactions within the province, provides for the Lieutenant-Governor in Council setting up grades and standards and appointing inspectors to administer the act. In practice the grades and standards adopted conform to those of the Dominion, and the inspectors appointed to administer the provincial statute are Dominion inspectors. Although there has been little or no experience of the working of "conjoint legislation" a number of difficulties would seem likely to arise. It will not be easy to preserve uniformity, which is so desirable, where changes in the statute must be enacted both by Parliament and by each provincial legislature as well. There will also be danger of confusion in having the same set of officials responsible to two different authorities, and difficulties would seem to be inevitable where conflicting instructions are given to these officials. Possibilities of unnecessary duplication in administration and serious friction between the Dominion and the provinces would seem to be inherent in the device.[7]

The present position of marketing legislation was, in our opinion, accurately summarized in one of the briefs presented to the Commission when it was said: "It would appear, therefore, that the position after almost 20 years of legislating and referring the constitutionality of various acts of Parliament and of the legislative assemblies to the Courts, finds us exactly where we began, namely, no one knows how to draft workable legislation dealing with the regulation of grading, packing, storing and marketing of agricultural products, which will come squarely within the respective jurisdictions of the Dominion and the Provinces without the exercise of almost incredible caution."[8]

There are a number of reasons why complete and exclusive jurisdiction over marketing legislation cannot appropriately be vested in either the Dominion or the provinces. Exclusive provincial jurisdiction to regulate trade in all commodities including articles entering into interprovincial and foreign trade would tend to destroy the uniformity necessary for foreign trade, and to create barriers to interprovincial trade that would be highly undesirable and contrary to the spirit, if not the letter, of section 121 of the British North America Act. Exclusive Dominion jurisdiction would involve the regulation of local sales of certain commodities, such as milk and vegetables, which it would be highly inconvenient for the Dominion to do. Moreover, it is possible that public opinion on economic and social policy in one province may be different from that which prevails in another province. The desire to have more comprehensive marketing legislation in one province should not be compelled to await the development of a similar desire in all provinces. With regard to the compulsory control of production there has been little practical experience, and it is far from easy to decide between the legitimate control of production for the purpose of ensuring a reasonable living to producers, and the prevention of combinations which tend to enhance prices to consumers. In such a matter a certain amount of regional experimentation is desirable.

Submissions made in our public hearings were almost unanimous in protesting against the present jurisdiction over marketing legislation and in urging that some change was desirable, but they were not unanimous in suggesting the form that this change should take. But in general the submissions urged that the Dominion and the provinces should share the jurisdiction over marketing, either by creating a concurrent jurisdiction analogous to that over agriculture and immigration in section 95 of the British North America Act,[9] or by creating a power for the Dominion and a province to delegate full authority one to the other to legislate concerning certain phases of marketing.[10]

We believe that either method would accomplish the desired result which is to provide for uniformity where the circumstances demand it, allow for local experimentation where it can be carried on without confusion and difficulty and, above all, to provide for certainty, and at the same time flexibility, of jurisdiction. We think it is desirable that the regulation of local marketing, such as the supply of milk for local consumption, should, in practice, be left to the provinces. But the marketing of commodities entering largely into interprovincial and foreign trade should be governed by Dominion legislation, which should be valid notwithstanding the fact that it may also regulate intra-provincial trade in these products.

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[7] For detailed discussion of these difficulties see J. A. Corry, *Ibid.*

[8] Ex. 252, Brief of Canadian Chamber of Agriculture, p. 13.

[9] *E.g.* Ev. (Director, Dominion Marketing Service), pp. 4813-14; Ex. 99, Brief of League for Social Reconstruction, pp. 25-26, Ev. p. 2810; Ex. 172, Brief of B.C. pp. 353-54; Ex. 206, Brief of Provincial Council of Women, B.C.; Ex. 210, Brief of C.C.F. (B.C. Section); Ex. 140, Brief of N.S., pp. 26-32 and Ev. pp. 3900, 4185-86; Ev. (Ont. Minister of Agriculture), p. 7876.

[10] Ex. 252, Brief of Canadian Chamber of Agriculture; Ex. 140, Brief of N.S., p. 24; Ex. 34, Brief of Sask., p. 335.

The creation of concurrent jurisdiction over grading and marketing, analogous to that over agriculture and immigration in section 95 of the British North America Act, would provide a solution of most of the difficulties which have been encountered in attempts to regulate the marketing of natural products. In practice the Dominion would probably legislate concerning only those phases of marketing which had importance for interprovincial and foreign trade, and the provinces would regulate marketing in its local aspects. There are, however, certain difficulties which it would be necessary to guard against if such concurrent jurisdiction were created. The terms "grading" and "marketing" are not of such precise meaning that they could, without further definition, be inserted in a constitutional amendment, and, as they involve economic rather than legal concepts, it might be extremely difficult to give definitions which would avoid legal controversy. Moreover, the term "natural products" is vague and difficult of definition, and it might be found desirable in the future to legislate for manufactured and semi-manufactured products which would not fall within any definition of natural products.[11]

We think that the happiest solution might be to provide specifically for concurrent jurisdiction (analogous to that in section 95 of the British North America Act) over the grading and marketing of a list of defined products, and to provide for the provinces adding other products to the list from time to time. There appears to be no reason why some of the provinces should not add designated products without waiting for the action of all provinces. The designation might be in perpetuity, or a province might be allowed to concede concurrent jurisdiction over the grading and marketing of added products for a defined period. The exact procedure for designating added products should be defined, and we think that the provision need not be restricted to "natural products" but that manufactured or semi-manufactured products might be similarly dealt with by the Dominion and provinces if it should seem desirable to do so.[12] The whole problem of regulation of marketing would, of course, be greatly simplified if our general recommendation, made elsewhere, providing for delegation of power by a province to the Dominion, or vice versa, were implemented.[13]

[11] Thus in the "Natural Products Marketing Act", *Statutes of Canada* (1934) 24-25 Geo. V. c. 57, "marketing" was defined to include "buying and selling, shipping for sale or storage and offering for sale." In the same Act "natural products" were declared to include "animals, meats, eggs, wool, dairy products, grains, seeds, fruit and fruit products, vegetables and vegetable products, maple products, honey, tobacco, lumber, and such other natural products of agriculture and of the forest, sea, lake or river, and any article of food or drink wholly or partly manufactured or derived from any such product that may be designated by the Governor in Council, in accordance with the provisions of this Act."

[12] It may be noted that for manufactured and semi-manufactured products the principal need is standardization rather than grading, but the procedure we suggest would be applicable for such a purpose.

2. Company Incorporation and Regulation

A number of representations were made at our public hearings concerning companies and their regulation. The nature and allocation of corporation taxes may be more conveniently discussed in connection with our financial proposals,[14] and certain of the special problems of insurance companies will be discussed separately.[15] Other representations concerning company matters may be grouped under three headings, namely, problems of company incorporation, the regulation of the issue and sale of corporate securities, and the difficulties from lack of uniformity in legislation requiring company returns.

Incorporation of Companies

By section 92, subsection 11 of the British North America Act the provinces were given power to make laws in relation to the incorporation of companies with provincial objects. In section 91 there is no specific Dominion power, but the incorporation of companies by the Dominion rests upon the residuary clause of section 91 which gives jurisdiction to the Dominion in relation to all matters not coming within the exclusive jurisdiction of the provinces. Under these respective powers the Dominion and all nine provinces have enacted Companies Acts which have undergone frequent amendment and have increased in length and complexity. Not only are there substantial differences between the ten statutes, but the provisions for incorporation follow one or other of two widely divergent models. In British Columbia, Alberta, Saskatchewan and Nova Scotia, the Companies' Acts follow the English method of incorporation by means of a memorandum of association; in the statutes of the Dominion and the other five provinces the incorporation is achieved by the issue of letters patent from the Crown. Although the powers of both types of company are similar, this fundamental difference in the method of incorporation creates a substantial obstacle to the attainment of uniformity in the ten statutes.

Uniformity could, of course, be achieved automatically if sole jurisdiction to incorporate companies were transferred to the Dominion. But,

[13] See p. 72.

[14] See Sect. B, Chap. III, 2.

if this took place, it seems probable that the Dominion would be required to establish local administrative centres for the public convenience, and that the cost of these would be as great or greater than the present cost of the companies' branches maintained by the provincial governments.[16] In the absence of such centres it seems likely that delay and inconvenience in the incorporation of companies would be unavoidable. Moreover, there appears to be a proper field for provincial incorporation of companies. For certain enterprises whose operations do not extend beyond the boundaries of a single province the advantages of local incorporation are obvious; for certain other enterprises it may be convenient that companies having power to operate in the province of incorporation should have capacity to receive additional powers from other jurisdictions. The present system of provincial incorporation of such companies in general is operating satisfactorily and with convenience to the public, and should not, in our opinion, be disturbed. It is noteworthy that the Dominion officials in the Department of the Secretary of State seek to discourage Dominion incorporation of companies whose sphere of operation appears to be merely local, and we believe this to be a proper attitude.[17]

Although we do not recommend that exclusive jurisdiction to incorporate companies should be vested in the Dominion, we believe that the advantages of substantial uniformity in the ten Companies Acts would be very great. These advantages were generally recognized by provincial governments and public organizations which made representations to us.[18] We believe that the desirable uniformity in Companies Acts can be achieved by Dominion-provincial collaboration without any reallocation of legislative power, and we are informed that steps have already been taken in this direction. At the Dominion-Provincial Conference in 1935 a sub-committee on company matters, composed of representatives of the Dominion and all provinces, was appointed. This committee has met several times and a draft uniform Act has been prepared and circulated. We believe that this is the most practicable method of dealing with this matter and urge upon all parties the desirability of achieving, as speedily as possible, substantial uniformity of company law in all jurisdictions.

The Sale of Securities

Although the provincial legislatures may not impair the corporate powers of a Dominion company, they may compel such a company to comply with laws of general application. In this way they have obtained a large and effective measure of control over the sale of securities issued not only by provincial companies but also by Dominion companies. The Dominion Under-Secretary of State gave as his opinion that there is great advantage in having statutes designed to prevent frauds in the sale of corporate securities administered by people who have local knowledge rather than by a central board, and with this opinion we fully agree. But the same official stated that "a great deal might be done to lessen the inconvenience and expense to companies in respect of licensing and the preparation and filing of returns."[19] It seems to us that there is a useless duplication of labour and expense in having substantially the same information supplied in different forms to the various jurisdictions in which a company desires to sell securities. Either agreement should be reached by the provinces and the Dominion that the investigation and licensing of one jurisdiction should be accepted by all, or else they should agree that identical applications for permission to issue and sell securities should be accepted by all jurisdictions. In this matter also steps have been taken in the direction of achieving uniformity through the work of the Dominion-Provincial Committee to which we have already referred, and we urge that this work should be pushed forward rapidly to a successful conclusion. An important advance in Dominion-provincial co-operation was taken when the provinces requested the Dominion to establish a clearing house for information as to company promotions and stock salesmen, and we understand that this request is about to be implemented by the Dominion.

Uniformity in Company Returns

Complaint from business organizations was made to us at our hearings in all parts of Canada, concerning the unnecessary complexity and lack of uniformity of returns required from corporations doing business in several provinces of Canada. It was said that governmental costs were increased by

[16] See evidence of Dominion Under-Secretary of State, p. 3467, and Ex. 14, Memo. of Manitoba Companies' Branch.

[17] Ev. p. 3443.

[18] Ev. (B.C.), pp. 5540-41; Ev. (N.B.), p. 9106; Ev. (N.S.), p. 4088; Ev. (Ont.), p. 7851; Ex. 394, Canadian Chamber of Commerce; Ex. 159, Halifax Board of Trade; Ex. 17, Winnipeg Board of Trade; Ex. 342, Montreal Board of Trade; Ex. 188, Associated Boards of Trade of British Columbia.

[19] Ev. p. 3449.

the duplication of the work of examining and checking these returns, and that the cost of compliance by the companies with a number of differing statutes, all demanding substantially the same information, was large and quite unnecessary. Complaint was also made of the annoyance of investigations and audits by officials representing several jurisdictions.[20] If the recommendations which we make elsewhere[21] as to the jurisdiction to impose and collect corporation taxes are implemented the duplication of corporation tax returns should be largely eliminated. But, in any event, it is only elementary common sense that this type of unnecessary duplication and waste should be eliminated as far as possible. The ideal arrangement, from the point of view of business, would be a common form of return on which all information requested by any government concerned could be tabulated. The purposes for which information is needed are likely, however, to differ as between different governments, even if those governments are not taxing authorities. We recognize, therefore, that there are great difficulties involved in devising a common form for all corporation returns which would not be entirely eliminated even if corporation taxes were paid to a single jurisdiction. But the information requested by various governments for the same purpose (e.g. licensing) is likely to be similar, and in such matters a common form of return would appear to be both practicable and desirable. It should also be possible to eliminate much of the duplication in inspection and audit of company affairs by reciprocal agreements between governments to accept each other's audits wherever possible. Every effort should be made by all governments to reduce and to keep at a minimum the nuisance to business of compliance with governmental demands for returns of information.

3. Fisheries

The respective jurisdictions of the Dominion and the provinces over fisheries have been the subject of a number of complicated and elaborate legal decisions. We do not propose to enter upon a detailed discussion of those decisions but, for the purposes of the present chapter, the legal situation may be summarized in the words of the Dominion Deputy Minister of Fisheries:—

> ". . . The exclusive power to regulate fisheries, no matter where these fisheries may lie, is a federal function. The administrative jurisdiction of all tidal fisheries and, under the decisions, in Quebec of all fisheries in waters that are navigable from the sea, is a federal function.
>
> In the non-tidal waters, broadly speaking, and in Quebec in those waters that are not navigable from the sea, ownership in the fisheries is vested in the riparian owners, and in most of the provinces it means that the ownership of practically all the fisheries is therefore vested in the province. So that at the present time the administration of the fisheries in the different provinces that have non-tidal waters is carried on by the departments of the provincial governments concerned.
>
> The Federal Government is regulating the fisheries in these provinces, and it administers as well as regulates the fisheries in all tidal waters with the exception of those in Quebec and, again, with the exception of those about the Magdalen Islands, where since 1921 there has been an agreement whereby the province carries on the administration in the tidal waters there with the exception of those about Quebec. . . ."[22]

From this division of jurisdiction over fisheries a number of administrative difficulties have arisen. For fisheries in tidal waters the Dominion both makes and administers regulations subject, however, to a special arrangement in Quebec which ignores the constitutional division and provides for provincial administration. Although the Dominion administration of fisheries in tidal waters may not be completely satisfactory to the provinces concerned, it was not suggested to us that this function should be transferred from the Dominion to the provinces. But it was suggested that the Dominion should decentralize its administration by appointing resident directors of fisheries[23] and that there might be more co-operation between the Dominion and provincial departments.[24]

For fisheries in non-tidal waters the Dominion is responsible for making all regulations, but their actual administration falls within the powers of the provinces. While the evidence suggests that no actual overlapping occurs,[25] it was said that this division of jurisdiction was highly unsatisfactory. The principal objection was based mainly upon the difficulties of remote control.[26] In the case of provinces which administer non-tidal fisheries the practice is for the provincial department concerned to decide on appropriate regulations and recom-

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[20] *E.g.* Ex. 88, Brief of Canadian Manufacturers' Association; Ex. 95, Brief of Dominion Mortgage and Investments Association. For discussion of cost of tax compliance arising from preparation of governmental returns, see Sect. B, Chap. III, 2.

[21] *Ibid.*

[22] Ev. pp. 3506-07. See also Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction.*

[23] Ex. 140, Brief of N.S., p. 139, Ev. pp. 4080-81; Ex. 161, Brief of P.E.I., p. 42, Ev. pp. 4506-07.

[24] Ev. (B.C.), p. 5441; Ex. 190, Memo. B.C. Dept. of Fisheries.

[25] Ex. 120, Memo. Dominion Dept. of Fisheries; Ex. 190, Memo. B.C. Dept. of Fisheries.

[26] Ex. 15, Memo. Man. Dept. of Natural Resources; Ev. pp. 755-65.

mend them to the Dominion Department which then passes them on to the Governor General in Council for approval.[27] At best this cumbersome system may give rise to annoying delays. In provinces with no tidal fisheries there would seem to be no reason why fisheries regulations could not be handled by the provinces with more efficiency and less Dominion-provincial friction than at present. But in provinces with both tidal and non-tidal fisheries certain types of fish resort to non-tidal waters for reproduction, and regulation by the federal authorities in non-tidal waters may be essential to their regulation of fisheries in tidal waters.

In our opinion the regulation of fisheries in Canada comprises not one, but several problems. The problems of the Maritime fisheries are different from those of the Prairie Provinces, and different again from those of British Columbia. It is probably impossible to draw a clear-cut line of demarcation between federal and provincial responsibilities which will be suitable for all provinces.

Two solutions of this difficulty suggest themselves. A power of concurrent jurisdiction over fisheries (analogous to that over agriculture and immigration in section 95 of the British North America Act) might be created.[28] This would permit the Dominion to pass regulations in connection with matters of national or international importance, and leave to the provinces regulation of fisheries in their local aspects. There is, however, a possible disadvantage in such a method in that it might create resentment if the Dominion, whose power to regulate would be necessarily paramount, entered into a field already occupied, possibly at some expense, by the province. Another method of dealing with the difficulty would be to give the Dominion power to delegate its right of regulation to any province which desired to take over this function. Proper conditions could be attached at the time of such delegation to safeguard legitimate Dominion interests, and the delegation might be limited to certain types or aspects of fisheries. We recommend elsewhere[29] that there should be a general power conferred on the Dominion and the province to delegate legislative powers one to the other. If this suggestion were implemented it would, of course, be applicable to the Dominion power to regulate fisheries, but in any event a specific power might be created to enable the Dominion to delegate jurisdiction to make fisheries regulations to such provinces as could perform this function more conveniently.

We think that either suggestion—concurrent power or power of delegation—would eliminate the difficulties experienced in the exercise of the existing jurisdiction over fisheries. If neither is adopted we think that substantial improvement might result if the Dominion decentralized its administration so that resident officials in the provinces could make changes in regulations, subject to the power of veto in the Minister at Ottawa.

4. Insurance

The business of insurance in Canada in 1867 was on a comparatively small scale and such regulation as was attempted was of a very simple nature. It is not, therefore, remarkable that no specific mention of the subject of insurance appears in the British North America Act.[30] But in the last seventy years the business of insurance has grown enormously and governmental regulation has grown with it in extent and variety. This regulation has been of three types, namely, imposition of conditions on incorporation, regulation of the terms and incidents of insurance contracts, and supervision designed to secure the solvency of insurers.

As there was no specific provision in the British North America Act legislative authority for such regulation had to be sought in the general powers appearing in sections 91 and 92. Legislation on insurance by the Dominion and the provinces began almost contemporaneously, and an early conflict over jurisdiction developed and was intensified as the business grew in importance. In 1868 the earliest post-Confederation Dominion statute[31] provided that all insurance companies, except provincial companies doing business in only one province, should secure a licence from the Minister of Finance, make deposits and file annual statements. In 1875 the Dominion established the office of Superintendent of Insurance to examine the annual statements and investigate the financial position of insurers.[32]

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[27] Ev. (Dominion Deputy Minister of Fisheries), p. 3507.

[28] It is interesting that in the Quebec Resolutions (Nos. 29 and 38) it was proposed that jurisdiction over sea-coast and inland fisheries should be conferred on both the general Parliament and the local governments. For suggestions as to concurrent power of regulation of natural resources see Ex. 387, Brief of Federation of Ontario Naturalists.

[29] See p. 72.

[30] It was apparently discussed at the Quebec Conference and reference to it in the Resolutions was dropped, see Pope, *Confederation Documents*, pp. 30, 88.

[31] *Statutes of Canada* (1868), 31 Vict. c. 48. For survey of legislation on insurance, see J. A. Corry, *Growth of Government Activities Since Confederation*. (Mimeographed.)

[32] *Statutes of Canada* (1875), 38 Vict. c. 20.

The Dominion has never attempted to regulate provincially-incorporated companies doing business only within the province, and it was with such companies that the earliest provincial legislation was concerned. In 1876 the Ontario Legislature provided that all companies without a Dominion licence should secure one from the Provincial Treasurer, make deposits, file annual reports and submit to inspection.[33] In the same year an Ontario statute required all fire insurance companies doing business in the Province to insert in their policies certain prescribed terms and conditions,[34] and in later years similar legislation was enacted by other provinces and concerning other types of insurance. By 1879 Ontario had an inspector of insurance, and by 1914[35] a provincial insurance department, headed by a superintendent, had been established and regulatory machinery very similar to that of the Dominion had been set up.

Dominion legislation was directed at the beginning chiefly to the questions of solvency and financial responsibility of the companies to which it applied. Provincial legislation dealt with the solvency of local provincial companies and with the requirement of fair and equitable terms in insurance contracts. But in providing for the requirements for a Dominion licence it was easy to include conditions as to the manner in which the licensee should do business, and in the provincial attempt to regulate the business methods of insurers a local licence could be used effectively. In the absence of a clear definition of jurisdiction disputes arose and produced a lengthy series of legal cases.

The provincial power to legislate respecting conditions of insurance contracts was established in an early case,[36] and the Dominion has not since attempted to prescribe such conditions directly. But it attempted to deal with certain phases of insurance contracts and to require insurers to obtain a Dominion licence.[37] It was held by the Privy Council that such legislation was invalid and could not be supported under the Dominion's powers to legislate for the peace, order and good government of Canada, or for the regulation of trade and commerce.[38] Following this decision the Dominion passed new statutes permitting the issue of licences to insurers and requiring the inclusion of certain provisions in insurance contracts as a condition of obtaining a licence. By amendments to the Criminal Code it was made an offence to carry on the business of insurance without a licence.[39] This attempt to support legislation under Dominion jurisdiction over criminal law, aliens, and immigration was also unsuccessful.[40] Another attempt to require insurers to take out a Dominion licence was made by imposing an additional tax on unlicensed insurers. This attempt to regulate insurance by the use of the taxing power was also held to be invalid in 1932.[41] Following this last decision of the Privy Council new legislation was passed by the Dominion Parliament, based evidently on its power over bankruptcy and insolvency.[42] The validity of this most recent legislation has not yet been challenged in the courts, and the uncertainty as to the Dominion's legislative power still persists.

This survey of legislation, and of litigation arising therefrom, indicates that there has been little doubt about jurisdiction over certain portions of the field of insurance. Thus, for example, there has never been any serious question of the power of the provincial legislature to regulate the terms of the contract or to licence insurance agents and brokers. But over some portions of the field there is still grave uncertainty. This uncertainty has led to administrative difficulties and has encouraged attempts to expand jurisdiction which would probably not have been made had jurisdiction been clearly defined.

Apart altogether from the decisions of the courts, there appears to be no inherent reason for a single unified administration over all phases of the insurance business, and no reason why the division of regulative power over insurance should lead to administrative inefficiency, provided the jurisdiction is clearly defined and provided different authorities do not attempt to duplicate each other's functions. It would seem possible not only to divide the field of insurance regulation according to function, but according to the type of company as well.

We are of the opinion that the jurisdiction to regulate the incidents and conditions of insurance contracts should remain with the provincial legislature, which has hitherto performed this function satisfactorily. We are strengthened in this conclusion by the consideration that in Quebec the rights

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[33] *Statutes of Ontario*, 1876, c. 23.

[34] *Ibid.*, c. 24.

[35] *Revised Statutes of Ontario*, 1914, c. 183.

[36] *Citizens Insurance Co. of Canada* v. *Parsons* (1881), 7 App. Cas. 96.

[37] *Statutes of Canada* (1910), 9-10 Ed. VII, c. 32.

[38] *Attorney-General of Canada* v. *Attorney-General of Alberta* [1916], 1 A.C. 588.

[39] *Statutes of Canada* (1917), 7-8 Geo. V, c. 26 and c. 29.

[40] *Attorney-General of Ontario* v. *Reciprocal Insurers et al.* [1924], A.C. 328.

[41] *In re Insurance Act of Canada* [1932], A.C. 41.

[42] *Statutes of Canada* (1932), 22-23 Geo. V, c. 46 and c. 47.

which are the subject matter of insurance contracts are defined by the Civil Code, and, in our opinion, it would be inappropriate to separate legislative power over civil rights and over insurance contracts. We were impressed also by the argument addressed to us by provincial Superintendents of Insurance[43] that the annual conference of the "Association of Superintendents of Insurance of the Provinces of Canada" affords a useful forum for the discussion of the form of insurance contracts and prevents hasty or unwise changes in the law. Through the efforts of this Association uniformity of law has been achieved in the common law provinces, and we feel that this provincial jurisdiction should not be disturbed.

The provincial legislatures already provide for licences of many kinds, and provincial officials are accustomed to the administrative details of licensing regulation. The licensing of insurance agents, brokers and adjusters, is a matter in which detailed administration and particular local knowledge are necessary, and we are of the opinion that the provincial jurisdiction in this regard is satisfactory and should continue.

It was represented to us that there are in certain provinces, especially Ontario and Quebec, a large number of provincially-incorporated companies, usually of a mutual type.[44] These companies, dealing mainly in fire and weather insurance, provide protection at low cost, and because of the local nature of their business can be supervised most economically and efficiently by the provincial departments of insurance. We recommend, therefore, that all provincially-incorporated insurance companies doing business only in the province of their incorporation should be subject for all purposes to the exclusive legislative jurisdiction of the province concerned. We think, however, that the Dominion Department of Insurance should have power to undertake the supervision of provincially-incorporated companies when requested to do so by the province. Such a system has been used in Nova Scotia with, we believe, great success.[45]

In regard to companies doing business in more than one province, duplication and overlapping exist in the matter of licences to do business, annual returns, and statistical reports. The memorandum of the Ontario Superintendent of Insurance[46] discloses that the functions in Ontario of the Dominion and provincial insurance departments are in many respects identical so far as they relate to licensing of insurers, administration of deposits, examination for solvency, filing of annual and statistical returns, annual reports and related matters. There is, therefore, duplication, or possible duplication, of governmental activity, and also a field within which friction between the two departments may arise. Insurance companies are forced to undertake an expensive and useless duplication of effort which presumably results in increased insurance costs to policyholders. It is true that in most, if not all provinces, Dominion licensees are entitled to provincial licences on compliance with merely formal requirements, and when a deposit is made with the Dominion, the provinces do not demand a deposit. Nevertheless, uncertainty is created by the mere existence of the power to impose additional requirements for licence and deposit, and duplication exists in the compilation of annual and statistical returns to the Dominion and provincial departments which often require calculations on different bases.[47]

Is it not obvious that where an insurer is doing business in more than one province, there should, in the interests of efficiency and economy, be only one supervision of that insurer concerning matters of solvency? In view of the difficulty of otherwise determining jurisdiction, and in view of the Dominion's experience in such matters which has been built up over many years, we recommend that the Dominion Superintendent of Insurance should be charged exclusively with the duty of examining as to solvency all insurance companies, other than provincially-incorporated companies doing business only in the province of incorporation. Subject to the same exception, the Dominion should have exclusive power to license all insurance companies, provide for such deposits as may be necessary, inspect for solvency, and require annual and statistical returns. It should be open to the provinces to inspect and obtain copies of such returns, and in fixing the form of statistical returns the wishes of the provinces for information should be ascertained and respected. But an insurance company licensed by the Dominion should be entitled to commence business in any province of Canada without question, and should be able to continue business subject only to the financial supervision of the Dominion Department of Insurance. In recommending a single jurisdiction for the financial

[43] Ex. 321, Memo. Ont. Supt. of Insurance, p. 18; Ex. 79, Memo. Sask. Supt. of Insurance pp. 15-18.

[44] Ex. 321, Memo. Ont. Supt. of Insurance, p. 14; Ex. 290, Brief of Mutual Fire Underwriters' Association of Ontario, Ev. p. 7300.

[45] Ex. 118, Memo. Dominion Supt. of Insurance, p. 7.

[46] Ex. 321, pp. 2-4.

[47] Ex. 94, Brief All-Canada Insurance Federation, p. 5; Ex. 321, Memo. Ont. Supt. of Insurance, p. 8.

supervision of insurance companies (except provincially-incorporated companies doing business only in the province of incorporation) we aim to avoid not only unnecessary costs to the insurance companies and the public, which we have already mentioned, but also the increased governmental costs arising from duplication of governmental machinery by the Dominion and the provinces for the inspection and supervision of insurance companies.

Summary of Conclusions

Our recommendations thus involve a clear-cut division of functions throughout the whole field of insurance law. The provincial legislatures should have exclusive jurisdiction to prescribe the statutory conditions and incidents of insurance contracts, and exclusive jurisdiction to license insurance agents, brokers and adjusters. They should also have power to supervise the financial affairs of all insurance companies incorporated and operating solely within the province of incorporation; but a province should be enabled to delegate this function to the Dominion if it so desires. The Dominion should have the exclusive jurisdiction and responsibility for licensing all other companies, requiring deposits from them, prescribing annual and statistical insurance returns, conducting financial inspections and supervision, and publishing annual reports concerning such companies. This division of jurisdiction should be expressed with the greatest possible definiteness and clarity since vagueness in definition of powers would permit attempts by both the Dominion and the provinces to extend jurisdiction to ancillary matters, and would thus tend to continue the long series of constitutional battles over insurance jurisdiction which should be brought to an end.

In the event that these recommendations are not carried out we think it essential that the respective jurisdictions now exercised by the Dominion and the provinces should be defined beyond question. The evident desire of the larger insurance companies to have Dominion supervision,[48] and the obvious advantages of Dominion supervision to certain of such companies in their foreign business, suggest the advisability of establishing the present exercise of function on a sound constitutional basis. Duplication and possible inefficiency of administrative control, resulting from uncertainty over the constitutional position, should not be allowed to continue.

[48] Ex. 94, Brief All-Canada Insurance Federation, p. 12; Ex. 92, Brief Canadian Life Insurance Officers' Ass'n, p. 16.

5. Prevention of Interference with Interprovincial Trade

One aspect of the regulation of trade and commerce which gives rise to more or less serious difficulty in every federal system is that of safeguarding the freedom of interstate or interprovincial trade which national unity requires. The member states of a federation at the outset are likely to be states which have imposed tariff barriers and, perhaps, other obstacles as well, to their trade with one another. These states or provinces after federation are apt to reach a stage of development at which there is bound to be political pressure in favour of some form of local protectionism. The desire to maintain and to augment the provincial revenue, to develop new industries, to ensure employment during a period of depression, to protect wage levels and working conditions against "unfair competition" or "social dumping", may all, at one time or another, contribute to this demand for local protectionism, which may appear even in municipal politics.

A federation usually starts off with good intentions and the most obvious forms of undersirable discrimination are usually prohibited. Thus, in Canada, the Federal Parliament alone was authorized to impose customs and excise taxes and indirect taxation generally; the Federal Parliament was given "exclusive" power to legislate concerning trade and commerce; the Federal Government was equipped with power to disallow provincial legislation; and the provinces were required to admit each other's produce freely.[49] While these provisions of the constitution discountenanced barriers to interprovincial trade they did not preclude them altogether and, under the stress of political pressure, various expedients have recently been devised which, in one way or another, afford some degree of provincial protectionism. Various briefs presented to the Commission contained protests against one or another form of this regional protectionism.[50] Research studies undertaken on behalf of the Commission show the magnitude and complexity of the problem. All

[49] "All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces." Section 121, B.N.A. Act.

[50] Ex. 17, Winnipeg Board of Trade commented on the tendency "more noticeable than ever, to restrict freedom of interprovincial trade by devices which have the same ultimate effect as imposition of tariffs upon business between provinces." Also Ex. 159, Halifax Board of Trade; Ex. 268, Toronto Board of Trade; Ex. 33, Native Sons of Canada; Ex. 394, Canadian Chamber of Commerce. The Canadian Chamber of Commerce protested against laws and regulations hampering the conduct of business and the "free movement of trade from Vancouver to Halifax".

forms of local protectionism are not necessarily objectionable; but it is not possible to segregate completely the good from the bad. While we have no panacea to offer it seems desirable to review the situation briefly and to indicate various remedial possibilities.

Examples of Provincial Protectionism

An exhaustive examination is not here attempted but some examples may be noted to indicate the nature of the methods, legislative and administrative, by which provincial protectionism is being advanced.[51] Certain taxes which in 1867 would have been considered essentially indirect at least by economists, and within the exclusive power of the Dominion, can now be so framed as to be deemed direct by the courts and, therefore, within the jurisdiction of the province. They can then be applied in such a way as to weigh more heavily on "outside" products than on local products.[52]. It was fear of an extension of this type of taxation which inspired much of the successful resistance to the proposal to amend the British North America Act so as to enable the provinces to impose certain taxes on retail sales,[53] and to remove doubts as to the constitutionality of legislation which has already been enacted. Further, the regulation of retail selling and the control of prices by the provinces may be applied in a discriminatory manner, and might also lead to "interprovincial dumping" (e.g. if price cutting is prohibited in one province, a dealer's stock might be exported to another province for sale there at sacrifice prices).[54] Inspection and grading laws can be applied so as to hamper interprovincial trade. So also can licensing provisions. Provincial governments, as liquor vendors, can give substantial preferences to local products either by the prices which they charge to the public, or by their purchasing policies, or in both these ways.[55]

Provincial legislation which aims at fixing local prices has possibilities of serious interference with interprovincial trade.[56] The less objectionable but still questionable methods by which provinces (and sometimes municipalities which the province creates) may "encourage" local industries by bounties or by exemptions from particular forms of taxation should also be noted.[57] Finally, propaganda in favour of buying provincial products is a form of provincial protectionism.[58]

The case for and against Provincial Protection

The growing demand for provincial protectionism must not be under-rated. This demand found expression in submissions made to the Commission. The Government of New Brunswick suggested the possibility of regional tariffs being applied for the purpose of protecting local interests. This suggestion was two-sided. It envisaged the possibility of tariffs of this character imposed by the Dominion to encourage certain industries or certain business conditions in a particular area; and as well the practicability of the imposition by New Brunswick of tariffs against the rest of Canada or against individual provinces, though the counsel of the province agreed that "it was doubtful whether this could be done."[59] Suggestions somewhat similar

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[51] For an extensive study into these measures see Appendix 8 —L. M. Gouin and Brooke Claxton, *Legislative Expedients and Devices Adopted by the Dominion and the Provinces.*

[52] Thus the taxation of fuel-oil in B.C. (*Revised Statutes of British Columbia*, 1936, c. 278) is protective of coal which is a chief product of the Province.

[53] See *Debates, House of Commons*, May 14, 1936 at p. 2806 (Cahan); *Debates of the Senate*, May 19, 1936 at p. 317 (Meighen); June 10, 1936, at p. 464 (Meighen).

[54] *Cf., Closing-out Sales Act, (Statutes of British Columbia*, 1937, c. 7.) By this legislation a licence is required for a closing-out sale.

[55] Manitoba has by the Government's Liquor Control Act fixed the price of beer sold but not brewed in the Province above that of beer locally brewed under authority conferred by an act of the Legislature.

[56] By the Commodities Retail Sales Act, 1937, c. 9, B.C. provides that commodities shall not be sold by retail in the Province at a price less than the cost of manufacture and sale.

[57] *E.g.* Bounties on iron and steel in N.S., B.C., Que., and Ont., and fixed assessments granted by municipalities to certain industries.

[58] It is not merely in matters of trade and commerce that one government may be accused of violating the spirit of the constitution to the prejudice of other governments while observing its letter. Elsewhere the abuses which have arisen from the imposition of provincial inheritance taxes in respect of both the domicile of the decedent and the situs of his property have been discussed. In the course of the Commission's hearings the Dominion Government was not infrequently reproached in provincial submissions and in evidence given by representatives of the provinces with having imposed a substantial tax on incomes without due consideration for the needs of the provinces and with having unduly enlarged its field of direct taxation. As for instance Mr. Pattullo, Premier of B.C. (Ev. p. 5263): "Every question which is asked here really gets back to the basic principle of the Dominion Government being an ogre—I am not saying that offensively—coming into our pantry where we have a full larder, everything in wonderful shape, then the government comes in and entirely pushes us out of our own pantry; that is the difficulty." See also Ex. 180, Brief of Argument of B.C., p. 4; Ex. 297, Brief of Ont., Pt. II, p. 20; Evidence of Hon. Mr. Conant, Attorney-General of Ont., pp. 7967-69.

[59] W. P. Jones, Ev. pp. 8739*ff*: "I had in mind the great advantage that would accrue to this province if it had been enabled to set up a tariff against the provinces of Ontario and Quebec." And "We could make agreements with the United States, we could make an agreement with Great Britain which would surely give us a better market than the markets of Ontario and Quebec."

in import were also submitted to the Commission by the Saint John Board of Trade[60] and by the British Columbia Chamber of Agriculture.[61]

It is beyond dispute that, as was emphasized in briefs submitted to us, already noted, local protectionism does tend to hamper national economic life and thus to reduce the income of the people of Canada upon which the prosperity of the whole Dominion rests. It is probable that there is no single province so situated as to gain on balance by the existence of local protectionism in Canada. In each case the desired objective is sought with such immediacy that the longer view, taking account of secondary results and ultimate consequences, is excluded from consideration. It is obvious that if one province can invoke these expedients to serve or protect a local interest, other provinces can do likewise; and that if a protective provincial tariff can be imposed for the advantage of a particular interest, other interests in the same province will exact the same advantage by the employment of political pressure. With the expansion of these experiments in provincial self-sufficiency, it would be speedily found that the local market obtained at such a cost would be a poor substitute for the lost freedom of trade throughout the Dominion. The damage done by local protectionism takes many forms: among them, the artificial location of industries within the national economy; the wastes of uneconomic competition; the financial burdens involved in supporting uneconomic industries; the uncertainty to business everywhere if markets in other provinces are in danger of being shut off by protectionist devices; the emphasis laid on rivalry and jealousy between the provinces. The short-turn gains that appear in the guise of increasing employment within the province (by diminishing employment in other provinces), or of increasing the revenue resources of the province (by decreasing those of other provinces), or of building up a self-contained community within provincial boundaries, will lose much of their importance if our main recommendations regarding unemployment relief and adjustment grants are implemented.

Interprovincial discrimination in Canada appears to be considerably less dangerous than interstate discrimination in the United States.[62] But it has already become serious, and American experience shows that it may become much worse. It is, therefore, a matter of which any thorough examination of Dominion-provincial relations must take account. For these reasons it is important to consider the practicability of remedial action. The strength and weakness of a number of alternative methods will be briefly reviewed.

The heart of the problem lies in the fact that the simplest requirements of provincial autonomy in legislation for the control of everyday life, and in matters of taxation, involve the use of powers which are capable of abuse, in the sense that they may be used to establish some sort of provincial protection. No doubt our proposals that corporation taxes should be levied by the Dominion alone

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[60] This submission (Ex. 369) outlined a scheme for imposing equalizing taxation upon manufactured goods or agricultural produce brought into the Province from outside and offered for sale at a price lower than those asked in the local markets. All shipments into the Province, it was suggested, should be accompanied by an invoice showing the price, attested by oath. This invoice would accompany the bill of lading and where it crosses the border, the customs authority would take it and clear the package. An enlargement of the customs staff to supply the necessary personnel was assumed.

[61] In an argument supporting its brief (Ex. 204) the Chamber proposed that the powers of the Dominion with respect to trade and commerce should be transferred to the provinces so far as they apply to the marketing of agricultural products. It was suggested that the province might be given exclusive powers with respect to trade and commerce in any agricultural product produced within the province, irrespective of "whether the trade or commerce so carried on with respect to such agricultural product has its beginning and end wholly within the province or not." The following interchange of views took place between the first Chairman of the Commission, Hon. N. W. Rowell, and Mr. W. E. Haskins who represented the B.C. Chamber of Agriculture (Ev. p. 5602): "The Chairman: The logic of your position is this: That each province could prohibit goods going out and coming in from the other province. You destroy the very basis of interprovincial trade and commerce in Canada.

Mr. Haskins: With the over-riding power of the Dominion, where the matter was one of general concern, to deal with the matter.

The Chairman: Which the over-riding power of the Dominion to-day prevents. It is not intended we should have nine watertight compartments. This is one country—Canada, and these provincial boundaries are matters historical or for convenience of administration. As far as trade and commerce is concerned, it is intended to flow freely throughout Canada."

[62] The wider powers of taxation possessed by the States has enabled them to apply measures of state protection which are exciting widespread apprehension in the United States. See for instance "Shove Thy Neighbor" by J. T. Flynn, *Colliers*, April 30, 1938, and "Death by Tariff" by R. L. Buell, *Fortune*, August, 1938.

In March, 1939 the U.S. Dept. of Agriculture published a report embodying the findings of an inquiry which the Bureau of Agricultural Economics had been conducting for two years into the growth of barriers erected by state legislatures against interstate trade. In a comment on the report, Henry Wallace, Secretary for Agriculture, said that "to-day we cannot say that we have free trade between the states." The *New York Herald-Tribune* of March 7, 1939, reviewing this report, said: "Our internal tariffs, controls and quota systems are not called by those names, but the effect is frequently quite the same as if they were. A dozen states lay excise taxes on all margarine except that manufactured from certain domestic ingredients—which amounts to a tariff on the foreign margarine. A number of states adjust their liquor licence requirements in such a way as to tax dealers in out-state beer or wine more heavily than dispensers of the domestic product; Michigan for a time had a frank tariff of 25 cents a barrel on out-state beer, and similar legislation has been proposed elsewhere. Various states and cities, including New York, apply their milk-inspection laws in such a way as to discriminate in favor of the neighboring farmer and against the 'alien' producers of Wisconsin, Vermont or similar foreign parts. Grading and labelling laws can be discriminatory as well as helpful to the consumer; plant quarantines may serve the interests of domestic producers as well as those of defence against infection. Automotive licence laws frequently penalize the interstate truckers by comparison with the domestic competitor, sometimes to the grave detriment of domestic shippers. And a system of regular ports of entry, at which trucks must check into and out of the state, is spreading a net of what almost amount to custom houses widely through the West."

will, if implemented, remove one source of discrimination.[63] There can, however, be no question of depriving provinces of all powers that are capable of abuse. The problem is to preclude or restrict abuses without interfering with legitimate and even necessary powers.

Possible Methods of Prevention

The device which naturally suggests itself to those familiar with the constitutional practice of the United States is to prohibit in the constitution the abuse of legislative power and to rely on the courts to determine how far provincial legislation does purport to interfere with interprovincial trade, and to declare the legislation, to that extent, invalid. But in practice it is a matter of extreme difficulty to disentangle legitimate measures designed to promote purely provincial objectives from those measures, the indirect effects of which may be undue discrimination against the products of other provinces, or against the activities of citizens of other provinces, or which may prejudice the revenues of other provinces. The elaboration, by a court, of strict and binding rules on such matters as these might in practice prevent the enactment of useful provincial legislation and might in destroying one type of abuse create shelter for other and even worse abuses. And it is doubtful whether the personnel best suited for purely judicial functions is likely to be the personnel best suited for dealing with somewhat technical questions of economics and business.

A second method would consist in relying on the Dominion to use the power of disallowance (a power which is always available to the Dominion in its discretion) to protect one province against undue discrimination incidental to the legislation of another province; or in giving to the Parliament of Canada a special head of legislative power enabling it to pass legislation to correct the discriminatory effects of provincial legislation. But this method is open to several objections. There is controversy concerning the appropriate use of disallowance. Any action which is discretionary, whether it be action of the Federal Government or of the Parliament of Canada, is political action and is open to the suspicion of being used with greater regard for one province than for another. Finally, interference by the Dominion is not likely to improve Dominion-provincial relations; and even inaction by the Dominion, when it had undoubted power to act, might embitter opinion in a province which felt itself aggrieved because of injuries received from protective measures enforced by another province.

A third method would be to allow a government aggrieved by the action of another to bring its complaint before the proposed Dominion-Provincial Conference. While such action is always possible and might in some cases lead to settlement of an issue by mutual consent, it has certain obvious weaknesses. The Conference will be a political rather than a judicial body; it will not readily act on a majority decision; in arguing a case before it a provincial premier might feel some repugnance to admitting that action which he had staked his reputation on defending in his own legislature was an infringement of "interprovincial comity"; and the disapproval of a majority could not be conveniently made public as a guide to popular opinion. Again, there is bound to be considerable reluctance on the part of a provincial government to censure the act of another provincial government or legislature lest by so doing it prejudice its own freedom of action.

A fourth method would consist in frank recognition that the proper working of the federal system and national unity alike require that both provincial and Dominion legislatures should abstain from some types of legislation which are unquestionably within their constitutional powers; that the spirit as well as the letter of the constitution must be observed; and that constant goodwill is essential if good relations are to be maintained. This method runs the risk of being little better than a pious admonition addressed by men exposed to no temptation to act with bias to others whose political careers may be at the mercy of political pressure with the full force of local interests behind it. In practice it is probable that the Premier of a province, or the Prime Minister of the Dominion, with a parliamentary majority in thorough agreement with his policy, would have very little difficulty in persuading that majority that the policy of which it approved was in full accord with the spirit as with the letter of the constitution.

If, therefore, this fourth method is to be made effective it must be possible to oblige a government (whether provincial or federal) to defend the propriety of its legislation, just as it may now be compelled to defend its constitutionality, before an impartial tribunal. Similar considerations apply if it is not the propriety of legislation which is in dispute but the propriety of administrative practice. An appropriate tribunal would have to include

[63] See recommendations *re* corporation taxes, Section B, Ch. III. 2.

both a judicial element and an element familiar with economics and with business, There are several possibilities. If one province complained of the legislation of another, but admitted either absolutely or for the purposes of the discussion, the constitutionality of the legislation, it might be entitled to have the fairness of the legislation judged by a tribunal consisting of the chief justice of the province which had enacted it together with, perhaps, one assessor nominated by that province and one nominated by the complainant province. The strong point of this tribunal is that a province might feel more confidence in its own chief justice than in an outside authority. The weak point of this sort of tribunal would be that it would be differently composed in different cases and that conceivably two identical provincial acts might be differently dealt with in different provinces. Furthermore, the employment of assessors nominated by the parties would be apt to tend to dissenting opinions and to dissatisfaction with any decision which was not unanimous. A second possibility would be that the decision as to the propriety of provincial legislation might rest with the Chief Justice (or some other judge) of the Supreme Court of Canada together with assessors, either designated for each case or chosen permanently for all cases. A third possibility would be the creation of a special tribunal. The drawback to this course, which might have the advantage of securing the best possible personnel for a difficult task, would be that the tribunal might have too little work to justify its cost—for the mere fact that an appeal from provincial enactment was possible might serve to discourage the more provocative forms of local protectionism.

The need for decisions which take account of all the circumstances of the case is imperative. Some minor interference with interprovincial trade may be involved in legislation which is in all good faith concerned with the adjustment of a local matter which could not be effectively dealt with except by measures which incidentally involve this interference. Of two enactments, which are indistinguishable as regards their form, one may interfere substantially and the other very little with interprovincial trade. A measure which, at the time of its enactment, inflicts no injury whatever on the citizens of other provinces may, as conditions change, become discriminatory in its operation, and it may be a matter of very delicate judgment to decide at what moment of time it becomes desirable that it should be amended to take account of extra-provincial interests. Our suggestions are based on the assumption that governments will, on the whole, not object to being told if and when their legislation or their administrative practice becomes unfair; and that they will realize that hard and fast rules would be inappropriate and even dangerous.

It is probably not desirable that the decision of such a tribunal should be mandatory in the sense of invalidating legislation found to be unduly discriminatory. The decision might be declaratory in character. Ultimately a province could probably be relied on not to offend against "interprovincial comity" by insisting on legislation which had thus been declared unfair to other provinces. The effect of the decision of the tribunal would be that a province would not be the sole judge if its legislation was unfair to others. The very existence of the tribunal would derive from recognition of the simple fact that a provincial legislature is not a good or reliable judge of such a question. It by no means follows that it cannot be relied on to correct abuses, once these have been authoritatively pointed out.

A fifth method would consist in direct agreement between provinces not to obstruct the trade of each other's citizens. This method might take the form of an interprovincial conference behind closed doors in which protests could be made and conceivably threats of retaliation. But this sort of bargaining would tend to give each province a *quid pro quo* in the form of concessions by other provinces for abandoning local protectionism, while our hope is that the advantages conferred on the weaker provinces by our main financial recommendations might be such as to induce them in return to agree to renounce such measures.

A sixth method would consist in formal agreements entered into by two or more provinces. Such agreements might deal with a wide range of matters in which some degree of uniformity was desired and might include engagements with regard to "protectionist" measures. Their use is exposed to some dangers. They might build up *blocs* which would be protectionist as against the rest of Canada and might thus intensify the very evil we are seeking to eradicate. Finally, enforcement presents difficulties as an agreement would have the nature of a treaty between the provinces concerned and hence would not be enforceable by ordinary legal processes.

In many instances, of course, it is municipalities, or other bodies on which the province has conferred powers, rather than provinces themselves, which are the immediate offenders in the matter of

economic discrimination, and the local protectionism of municipalities may be exercised to the detriment of other municipalities in the same province.[64] This matter lies beyond the purview of the Commission except in so far as interprovincial discrimination results from municipal action or from that of other bodies such as professional organizations. In this case the province, which creates a municipality or organization and confers powers on it, is completely responsible for the action of that municipality or organization and owes it to other provinces that it should retain and, when occasion arises, exercise adequate administrative powers of control.

Conclusions

We have purposely left our discussion of this important question vague because, in our opinion, it is essential that all the legislatures concerned should agree wholeheartedly to some review of their legislation, and because it is probably a Dominion-Provincial Conference which can best agree on the type of review which would be most acceptable to them. There seems to be every reason why they should agree, for while it is easy to slip into measures which others will think unfair, and difficult to recede from a position which has once been assumed, it is easy to express readiness to abstain from unfair or discriminatory use of legislative power provided that other provinces give the same undertaking. There is also a distinct advantage in separating the question of the constitutionality of legislation from that of its general merits. If, as at present, only the former question can be reviewed by the courts, the latter is almost certain to become involved in the debate. It is notorious that " hard cases make bad law ".

There are not the same reasons for our being vague as to the principles which should be observed in giving effect to what we have termed the spirit of the constitution. There should, we think, be complete freedom of trade and commerce throughout Canada; complete freedom of investment; complete freedom of movement and freedom from arbitrary restrictions (as distinct from a bona fide test of vocational qualifications) in the practice of a trade or profession; and complete freedom from discriminatory taxation. If there are to be exceptions to these general principles they should be authoritatively and unambiguously declared.

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[64] See Appendix 8—L. M. Gouin & Brooke Claxton, *Legislative Expedients and Devices Adopted by the Dominion and the Provinces*, p. 53: "There is also municipal taxation, particularly in Quebec, which, if allowed to develop, would divide Canada into walled towns. Though hardly of national importance in itself, this municipal legislation is important as indicating what might happen if narrow-minded local feeling forced economic nationalism to its ultimate conclusion."

Chapter V

FACILITIES FOR DOMINION-PROVINCIAL CO-OPERATION

Despite the undoubted advantages of a federal system of government it is liable to have certain inherent defects. Two of these are rigidity and inelasticity in the division of powers between the central and provincial (or state) authorities, and lack of means of co-operation between autonomous governments in matters of common interest. In this section we make certain suggestions which we think, if implemented, would largely overcome these defects in the Canadian federal system. We think that thereby national unity and efficiency of government would be promoted without in any way impairing the autonomy of the provinces.

1. Dominion-Provincial Conferences

The basic principle of a federal system of government is the division of powers between central and local authorities. In a relatively simple society where the functions of government are few and simple, such as at the time of federation, this division of power may not be a hindrance to efficiency and economy in government. But in the highly interdependent and complex society of today, with the great expansion of governmental functions which has become necessary, efficiency and economy in government cannot be obtained merely by a division of powers between governments. Co-operation in the pursuit of common objects and in the solution of common problems is no less essential. But co-operation between autonomous governments is difficult to achieve. Administrative authorities responsible to different legislatures are not always interested in co-operation; indeed, non-co-operation may on occasion better serve their immediate interests. Autonomous governments may thus tend to become rival centres of power rather than agencies for the co-operative pursuit of the public weal. This has too often been the case in the Canadian as in other federal systems.[1] It is imperative that means be found for overcoming this tendency and for promoting co-operation between the provinces and between the Dominion and the provinces which is so essential to efficiency and economy in administration under modern conditions.

There have been attempts going back over fifty years to meet this deficiency in our federal system by occasional conferences, interprovincial[2] or Dominion-provincial[3] in character, called for the consideration of matters upon which common action was thought desirable. This expedient was first resorted to by the provinces in 1887 when an interprovincial conference met in Quebec at the instance of the Quebec Government, with five of the seven provinces represented.[4] The Dominion Government, though invited, sent no representatives to this conference. The conference occupied itself exclusively with Dominion-provincial relations, seeking extensive modifications in the constitution and asking for a new schedule providing increased subsidies for the provinces. The purpose of the conference, it was declared, was to improve relations between the federal and provincial governments.[5]

Fifteen years passed before another conference was called; again it was an interprovincial conference, which was held in Ottawa at the instance of the Government of Quebec, as before. This conference limited its consideration to the question of subsidies; it revised the proposals of the 1887 conference and submitted its results to the Dominion Government which, though taking no part, was favourable to the holding of the conference, according to a statement made to the conference by the Premier of Quebec.

The first Dominion-provincial conference was convened by the Prime Minister of Canada in 1906. It adopted in substance the recommendations of the interprovincial conference of 1902 which were

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[1] See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 7-10.

[2] The term "interprovincial conference" is used to mean those conferences between provincial representatives in which the Dominion Government either did not participate at all or did so only upon invitation.

[3] The term "Dominion-provincial conference" is used to mean those conferences summoned by the Dominion Government or in which that Government took an active part.

[4] The unrepresented provinces were Prince Edward Island and British Columbia.

[5] "The government which has taken the initiative in connection with this conference deems it its duty to declare at once that the conference must not be considered in the light of a possible move against the Federal authorities but that its sole object is to endeavour to solve, in the general interests of the whole of Canada, such difficulties as experience has shown to exist in the relations between the general and provincial governments." (Statement by the Premier of Quebec at the opening of the conference.)

made effective by Dominion and Imperial legislation. With this as a precedent the Dominion Government has in the intervening years called the provincial governments into conference with it on seven occasions: in 1910, to consider the question of company law; in 1918, to discuss a wide range of questions: the return of their natural resources to the Prairie Provinces, applications by other provinces for increased subsidies, taxation, unemployment, housing and other problems arising at the close of the War; in 1927, to deal with an agenda covering many questions in which the Dominion and the provinces were jointly interested; in April 1931, for the purpose (as set out in the letter calling the conference from the Prime Minister of Canada to the Premiers of the Provinces), "of affording the provinces an opportunity of presenting any views they might desire to express with reference to the changes that are involved in the proposed statute of Westminster"; in 1933, to consider the question of road and rail transport; in 1934 to deal with unemployment relief and kindred questions, and company law.

The most elaborately organized of the Dominion-provincial conferences was the last one held, that of December, 1935.[6] The whole field of Dominion-provincial relations in which there was uncertainty and friction was included in the agenda; all nine provinces were represented; the delegations were almost identical with the personnel of each government; and each government was attended by its senior administrative officials. The agenda included seven questions: (1) relating to the procedure that should be followed in amending the British North America Act; (2) relating to the financial relations between provinces and Dominion; (3) relating to unemployment and relief; (4) relating to responsibility for and co-ordination of social services; (5) relating to mining development and taxation; (6) relating to agriculture and marketing; (7) relating to tourist traffic development. All these questions were referred to special committees which made reports to a plenary session of the conference.

During this period of thirty-three years representatives of the provinces met in conference upon several occasions to consider matters of special concern to them: in 1910, an abortive meeting to consider the attitude of the other provinces toward the proposal that the representation in Parliament of the Maritime Provinces should be irreducible notwithstanding population changes; in 1913, for consideration (again inconclusive) of the question of Maritime representation, enlarged subsidies, and minor matters; in 1926, eight provincial governments met in conference to consider questions of double taxation, jurisdiction in insurance matters, and special relief for provinces where prosperity lagged.[7]

It will thus be seen that within a period of twenty-nine years there were eleven conferences, including both types, while in the period from 1926 to 1935 there were six, or roughly one for every year and a half. The range and scope of the questions discussed, as briefly indicated in this summary, make it quite clear that all the governments in Canada have recognized the need for conferences of this character and have admitted their usefulness in clarifying issues about which there is a conflict of interest or opinion.

The Government of Nova Scotia in its submission to the Commission made the definite proposal that these conferences should become an essential part of the Canadian federal system. Its recommendation was in these terms:—

> "That provision ought to be made, by way of amendment to the British North America Act or otherwise, for annual conferences to be held at a fixed time between representatives of the Provinces and representatives of the Dominion."

In the Province's printed submission and in oral argument by Premier A. L. Macdonald, this proposal was explained and elaborated. "The conferences" it was stated in the brief "have proved to be very valuable and have produced results beneficial not only to the provinces but to the Dominion as a whole", despite the fact that in the past conferences have been called, often on short notice, at times when it was inconvenient for one or more province to attend and with no preliminary consideration of the agenda.

The criticisms of Nova Scotia regarding the sporadic character of the conferences, the lack of careful preparation by the government making itself responsible for the meeting, the shortness of notice to the participants, the briefness of the time allotted for consideration of the questions submitted, appear to be justified by such examination into the history of these gatherings as has been possible.

The Government of Nova Scotia made certain concrete proposals for improving the conferences. Much more, it was contended, could be accomplished if provision were made, either in the British

[6] *Dominion-Provincial Conference, 1935: Record of Proceedings.*

[7] The information given in the preceding paragraphs was compiled by the research staff of the Commission from departmental records and press reports. The official records of many of the earlier conferences are very incomplete; and for the inter-provincial conference of 1926 held in Ottawa no record is available beyond the contemporary reports in the press.

North America Act, or by established practice, to hold a conference each year at a fixed time. All governments could plan in advance to attend, and a small permanent secretariat could collect statistical and other data, compile the agenda and otherwise ensure continuity between conferences. Two points were emphasized in the argument by Nova Scotia. It was said, first, that such a scheme for regular conferences would allow not only formal discussion of items on the agenda, but also informal discussion of difficulties that had arisen either between the Dominion and a province, or between one province and another. The conference, it was said, would be " an informal round table where the problems or the difficulties of any province could be brought out and aired informally." Trade regulation and similar practices by provinces, considered unfair by other provinces, could be discussed. The conference would supply an " opportunity for discussion and for creating a spirit and an attitude of co-operation among the provinces and the Dominion, and a willingness based upon sympathy and understanding, on the part of one section of the Dominion to assist in so far as possible in correcting the difficulties of another section." In the second place it was argued that " attendance should not be made to depend upon whether the provinces have particular issues to bring before the conference, but should be regular and as a matter of course."[8]

The proposal for annual conferences made by Nova Scotia was supported, with minor qualifications, by the Governments of Prince Edward Island and New Brunswick.[9] The advantages of having permanent and continuous conference machinery were also stressed in several briefs by private organizations.[10] Apart from the suggestion by the Premier of British Columbia[11] that annual conferences were, perhaps, too frequent (but he made plain his willingness to consent if the other provinces wished to have a conference each year), no objection to the proposal was made in any of our public hearings.

These proposals of Nova Scotia appear to correspond with the views of the Dominion Government. In opening the conference of 1935, Prime Minister W. L. Mackenzie King said:—

> " At the present conference we can examine the basic principles underlying the [Dominion-provincial] questions, and provide machinery for their continued study and treatment. In this manner, their final, satisfactory disposition can be ensured at subsequent conferences.
>
> This arrangement of continuity and permanence is necessary, because co-operation between the Dominion and the provinces is too vital a matter to be left entirely for intermittent conferences and to correspondence between governments.
>
> Our secretarial arrangement and our proposed organization are based upon this desire—to have permanence and continuity."[12]

Some kind of organization for regular, instead of intermittent, conferences was here clearly suggested —a suggestion to which effect has not yet been given.

The need for such regular conferences to promote co-operation between Dominion and provincial governments is obvious. The complexities of our social, political and commercial organization have now reached a point where the earlier view, once widely held, that all Dominion-provincial difficulties arising from disputes over jurisdiction could be settled by a strict demarcation of powers and responsibilities must be finally abandoned. A clear demarcation of legal power is still theoretically possible, but the functions of government in the modern state cannot be divided sharply between central and local authorities as can legislative power. Many functions inherently unitary in character are in fact divided between the Dominion and the provinces by the present division of legislative power. Public health, the regulation of marketing, the control of business, are conspicuous examples. In such matters there will inevitably be gaps and inefficiency in governmental control without at least a measure of co-operation and uniformity of method between different governments. This intermeshing of duties, powers and responsibilities between the Dominion and the provinces demands sympathetic, constant and efficient co-operation between these governments. Moreover, it is in the interests of the provinces themselves that efficient methods of co-operation be devised. The tendency in most federal states has been toward centralization at the expense of the provinces (or states). In so far as matters requiring uniformity of treatment, or concerted action can be dealt with by co-operation among the provinces, or between the Dominion and the provinces, the case for additional centralization to promote efficiency or uniformity will not arise.

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[8] Brief of N.S., pp. 38-42. See also evidence of Premier A. L. Macdonald, p. 4061.

[9] Brief of P.E.I., p. 54; Ev. (N.B.), p. 8498.

[10] Ex. 267, Citizens' Research Institute, pp. 67-68; Ex. 113, Canadian Federation of Mayors and Municipalities, p. 66.

[11] Ev. pp. 5538-39.

[12] *Dominion-Provincial Conference, 1935: Record of Proceedings*, p. 9.

Mr. King, in the speech to the conference from which we have already quoted, is explicit in his avowal of this need of co-operation.[13]

The Commission, in the light of these facts, is of the opinion that Dominion-provincial conferences at regular intervals with a permanent secretariat, as suggested, would conduce to the more efficient working of the federal system. It, therefore, recommends the adoption of the proposal submitted by the Government of Nova Scotia.

The cost of providing the secretariat should be borne by the Dominion Government and provision should be made for an adequate staff to collect information on Dominion-provincial relations and make it available to all governments. If our recommendation for the creation of a Dominion-Provincial Finance Commission is adopted, the secretariat which will be required might well be also employed as the secretariat of Dominion-provincial conferences as its work will be wholly in the field of Dominion-provincial relations. Or, as an alternative, the secretariat might be provided by the Department of the Secretary of State. Under the supervision of such a secretariat full records of Dominion-provincial conferences could be kept. A technique of procedure at such conferences could be evolved to afford opportunity for full consideration of matters which might otherwise produce friction or lack of harmony either between the Dominion and one or more provinces, or between two provinces, as well as to promote co-operation on matters of common interest. To suit the convenience of all governments concerned, provided it was clearly understood that no great delay should intervene between conferences, a certain latitude could be allowed in arranging the time when a conference should be held.

In recent years the practice has developed of holding frequent conferences of administrative officials in similar departments of Dominion and provincial governments. The work of the Dominion Council of Health and of the special inter-governmental committee on uniformity of company law may be cited as examples of the value of this type of conference. We suggest that special co-operative activities of this kind should be continued and related to the work of the general Dominion-provincial conferences. Such conferences of administrative officials on particular problems might well be held either at the same time as, or immediately before or after, the general conference.

If provision is made for adequate machinery for Dominion-provincial conferences it will, in the judgment of the Commission, supply a serious lack in the Canadian federal system. In the past the spirit of open diplomacy has sometimes been lacking in the relations between the Dominion and the provinces. In the result it has happened that a province suffering from some peculiar disability or having some special claim on the Dominion has been able to conclude a bi-lateral agreement with the Dominion which aroused the envy or resentment of other provinces. It is desirable, except in very special circumstances, that arrangements between the Dominion and a province should be open for discussion at a conference where all the provinces have the opportunity of being represented. Such conferences might also be used to facilitate arrangements between two or more individual provinces.

Another suggestion of machinery for closer co-operation between the Dominion and the provinces was made by New Brunswick[14] which advocated the establishment of a Department of Secretary of State for the Provinces at Ottawa and a Department of Federal Relations in each province. Immediately after Confederation a member of the Dominion cabinet held the portfolio of Secretary of State for the Provinces. In 1873[15] this Department was abolished because of insufficient work to justify a separate department, and its functions transferred to the Department of the Secretary of State.

The suggestion of the New Brunswick Government contemplated the use of new departments for the conduct of inter-governmental communications.[16] At the present time, except in formal matters, a department of a provincial government usually communicates directly with the department of the Federal Government which is concerned with the matter under discussion, without any record being kept in any central office in either the provincial or Dominion governments. In formal matters, the Dominion Secretary of State communicates on behalf of the Federal Government with the Lieutenant-Governor of the province. There may be certain disadvantages in not having a single department in each government charged with the

[13] Where demarcation was not possible Mr. King said that "a formula for co-operation between the Dominion and the provinces" should be sought. Speaking on the need for co-operation Mr. King said: "we should not lose sight of the fact that governments are only institutions created by men to serve human needs. After all, the citizens of the provinces are the citizens of the Dominion. The individuals whose interests the provinces seek to serve are the same individuals for whom the Dominion is concerned." (*Ibid.*, p. 9.)

[14] Ex. 357, pp. 7-8.

[15] *Statutes of Canada*, (1873) 36 Vict., c. 4.

[16] Ev. pp. 8546-47.

responsibility for inter-governmental communications. Each province must, of course, decide for itself the expediency of establishing such a department, but the Commission is inclined to think that the delay and inconvenience of having the voluminous correspondence, which is today necessary between governments, conducted by one department would make the suggested innovation undesirable. The existing machinery of communication appears to have developed along satisfactory lines but there is obviously room for improvement. Complaints are voiced from time to time by some of the provinces about the difficulty of getting information in the form most suitable to their uses, as for example, statistics. We think that the establishment of a permanent secretariat for Dominion-provincial conferences could be highly useful in meeting this need since it could serve as a bureau of information to all the provinces.

2. Delegation of Powers

One of the difficulties inherent in any federal system is the rigidity which marks the division of jurisdiction between the central and local governments. For obvious reasons constitutional amendments in a federal state are made more difficult than is usual in unitary states.

Under our terms of reference we do not feel called upon to make any recommendations as to methods by which the British North America Act should be amended. Our instructions obviously contemplated the suitability of a reallocation of powers which would require constitutional amendments, and we are reporting as to what in our opinion will "conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada". Where necessary or desirable in the light of our investigations, we have recommended that changes in the British North America Act should be made, our only restriction being the duty to respect a "distribution of legislative powers essential to a proper carrying out of the federal system". While we have recommended that constitutional changes should be made, we feel that it should be left to the Dominion and the provinces to work out the method whereby acceptable changes should be brought about. We desire merely to emphasize the necessity that some procedure for constitutional change should be evolved.

We think that the introduction of a measure of flexibility in the Canadian federal system should be considered. A number of provinces may on occasion be willing and may even actively desire the Dominion to assume responsibility for a function which is beyond its constitutional powers. The Dominion may itself be willing to assume the function but be unable to do so until public opinion has developed to the extent of permitting a constitutional amendment to be made. On the other hand, the Dominion may be alone entitled to perform functions which, under modern conditions, it may be more appropriate for the provinces to perform and certain of the provinces may be anxious to assume such responsibility. In several submissions to us,[17] it was suggested that it would be desirable to allow a province to delegate power over a subject to the Dominion, provided that the Dominion was willing to accept the delegation, and conversely that there might be delegation of power by the Dominion to a province. The effect of such delegation would be that the delegating authority would divest itself, at least for a limited period, of the power as completely as if it had been assigned to the other authority in the British North America Act.

At the present time, although the law is not entirely clear, it seems that delegation of legislative power either by the Dominion to a province, or by a province to the Dominion is invalid.[18] To establish definitely a power of delegation which is sufficiently wide, amendment of the British North America Act would be required. Such an amendment should cover both the power to delegate jurisdiction and the power to receive jurisdiction by delegation. Such a power of delegation should apply to the whole field of legislative power for both the province and the Dominion including any legislative power received by way of amendment or delegation. It should also be provided that the act of delegation would only be operative if the legislative unit to which delegation was made signified its willingness to accept it. Provision should also be made permitting delegation to be either in perpetuity or for a definite time limit. The Dominion, for example, might be unwilling to accept the delegation of certain functions involving extensive organization (such as non-contributory old age pensions) unless it were assured that the delegation would operate in perpetuity. For other functions (such as the grading of natural products) it might be sufficient if there were assurance that

[17] Ex. 140, Brief of N.S., pp. 22-24; Ex. 34, Brief of Sask., p. 335; Ex. 252, Brief of Canadian Chamber of Agriculture.

[18] *Canadian Pacific Railway Co.* v. *Notre Dame de Bonsecours* [1889], A.C. 367. *Rex* v. *Zaslavsky* [1935], 3 D.L.R. 788; *Rex* v. *Thorsby Traders* [1936], 1 D.L.R. 592; *Rex* v. *Brodsky* [1936], 1 D.L.R. 578. Delegation should be distinguished from legislation by reference and conditional legislation, both of which may be constitutionally valid. See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, p. 37 *ff*.

the delegation would not be revoked for a stipulated period of ten or fifteen years. It should also be provided that although an agreement of delegation could not be revoked by the unilateral action of either legislature during the life-time of the agreement, it might be terminated earlier with the consent of both parties expressed by appropriate legislation.

Subject to such restrictions, we can see no reason why a mutual power of delegation between the Dominion and a province should not be permitted on a temporary as well as a permanent basis. It was suggested to us[19] that the failure of attempts which have been made to introduce an element of flexibility into federal constitutions has been largely due to the fact that changes were required to be permanent. It was said that there should be provision for temporary delegation of functions wherever such a device could be appropriately applied. In the British North America Act provision for change in the respective jurisdictions of the Dominion and the provinces appears in section 94. The Dominion was given power to make provision for uniformity of laws relating to property and civil rights in the three common law provinces, but any federal act designed to do this required adoption by the legislature of a province before it had any operative effect in such province. When the act had been thus adopted the Dominion acquired full legislative power in perpetuity to deal with its subject matter. It is conceivable that the irrevocable consequences of action under section 94 prevented it from ever being used.[20] Moreover, there is considerable doubt whether the section applies to provinces other than Ontario, Nova Scotia and New Brunswick,[21] and there is no provision for transfer of jurisdiction from the Dominion to a province if such should be desired.[22]

Elsewhere in this Report in dealing with certain specific problems of Dominion-provincial relations we have suggested that these problems might be solved in each instance by delegation of jurisdiction.[23] We think that a general power of delegation such as we have discussed, which would allow the transfer of jurisdiction from the Dominion to a province, or from a province to the Dominion subject to the conditions mentioned, would cover all these instances, as well as others. With such a power desirable changes in the constitutional allocation of powers could be effected in respect of one province without the necessity of waiting for such a development of public opinion as would permit of a nation-wide constitutional amendment. A change in jurisdiction might be effected on a temporary basis for one province, which, if it proved successful, might induce other provinces to make similar arrangements, and if unsuccessful need not be a permanent arrangement as would be a constitutional amendment.

The power of delegation would also permit of minor changes in the allocation of functions between the Dominion and certain provinces to suit the peculiar conditions of these provinces. In a federation such as Canada where some provinces are much larger and financially much stronger than others this may be highly desirable. As we have pointed out in the chapter on overlapping services, the Dominion has already been driven to perform certain services for the smaller provinces which the larger provinces do not need.[24] A general power of delegation would facilitate arrangements of this sort in keeping with the nature of the Canadian economy and the unequal size and strength of Canadian provinces. In short, a general power of delegation for both the Dominion and the provinces should provide a measure of flexibility which is much needed in our federal system.

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[19] Ex. 140, Brief of N.S., p. 23.

[20] Ev. p. 3875 (Attorney-General, J. H. MacQuarrie of N.S. *re* sec. 94 of the B.N.A. Act): "It is suggested that the reason the section has not been used may be found in the words 'and from and after the passing of any Act in that Behalf the Power of the Parliament of Canada to make Laws in relation to any Matter comprised in any such Act shall, notwithstanding anything in this Act, be unrestricted'; and because no provision was made by which a Province could get back a subject of legislation that under this section had been given to the Dominion. From which it would appear that once the Dominion were permitted under this section to encroach upon a provincial field, the matter dealt with would become exclusively and for all time one for the Dominion."

[21] See, however, the opinion of Mr. F. R. Scott, Ev. p. 2781.

[22] In the Australian constitution the Commonwealth Parliament was given jurisdiction to make laws with respect to "matters referred to the Parliament of the Commonwealth by the Parliament or Parliaments of any State or States, but so that the law shall extend only to States by whose Parliaments the matter is referred, or which afterwards adopt the law." (*Commonwealth of Australia Constitution Act*, Section 51.) (See also Section 105A.) This section has never received any application in Australia but it was suggested to us that if it had been more restricted and had provided for reference of legislation under defined conditions, it would have received considerable use. See Ex. 140, Brief of N.S., p. 23.

[23] See particularly p. 59 *re* fisheries, p. 56 *re* marketing, p. 32 *re* old age pensions.

[24] See Sect. A, Chapt. II.

SECTION B

PUBLIC FINANCE

CHAPTER

I—The Canadian Economy and Public Finance
II—Plan I
III—Tax Transfer Recommendations
IV—Dominion and Provincial Debts
V—National Adjustment Grants
VI—Plan II
VII—Municipal Finances
VIII—Equity and Efficiency in Taxation

Chapter I

THE CANADIAN ECONOMY AND PUBLIC FINANCE

The Commission, in accordance with its terms of reference, has devised and recommends the fiscal plan which, in its opinion, "will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada".[1] This plan is based on the historical, economic and financial analysis of the Dominion contained in Book I of this Report. It is an attempt to make the division of financial powers and responsibilities of governments conform to the basic economic structure and social needs of the country.

The Canadian economy is made up of a number of diverse and highly specialized areas. Partly as a result of the specialized character of the resources and industries of the individual regions, and partly as a result of national policies, these regions are closely related and integrated and are, to an important extent, dependent on each other. But although these regions may be economically complementary, and the existence of each vital to the welfare of the others, it does not follow that the income resulting from their joint effort is evenly distributed. On the contrary, it is a distinguishing feature of the Canadian economy, which has particular significance for public finance, that a very large proportion of the surplus—and taxable—income of the country is concentrated in a few specially favoured areas. (We use the term surplus income to comprise income derived from the ownership of scarce resources and the occupation of monopoly positions, and all other income in excess of that necessary for bare subsistence.)

This state of affairs did not exist in 1867. As recounted in Book I, the new Dominion's transportation policies and railway, canal and harbour construction, its immigration and land settlement policies, its trade, tariff and industrial policies, its banking and monetary policies—all of which we may for convenience call national economic policies —established a framework within which the young country grew. The great expansion in population, trade, and industry that came with the wheat boom both marked the success of these national economic policies and established them more firmly. Canada was knit more closely together and the different regions became more dependent on each other. The Maritime Provinces failed to share to the full extent in the wheat boom prosperity and accompanying integration, but in general the country had become committed to a transcontinental economic organization from which no part could detach itself and prosper in isolation.

The War and the post-War boom introduced many new and complex elements in what had previously been a broad simple pattern. The national war effort, the national railway commitments, and the great growth in all governmental, corporate, and private debts, increased the fixed overhead costs of the country tremendously, and thus created new rigidities and increased the fluctuations of surplus income in the country as a whole, and even more so in the different regions. Their economies became not only much more interdependent and complex, but in many respects much more delicate and vulnerable. Not only had overhead costs of Canadian industry and government grown much larger and more rigid, but the income of large areas became more and more dependent on specialized export activities and the huge initial investment connected with them. In addition to the Prairie wheat exports, which were still of dominant importance, mine, forest, and electroproducts from Northern Ontario and Quebec, and from British Columbia, and automobiles and accessories from Southern Ontario created new regions which were basically dependent on international trade and often on limited, highly fluctuating, and uncontrollable markets. In connection with these developments (and the growing use of the automobile) was a huge capital investment which stimulated and maintained a high tempo of economic activity throughout most of the country. One result was a very substantial increase in real income, bringing with it a change in consumption habits and distribution of expenditures which drew a larger proportion of our productive forces into vulnerable luxury and

[1] Order in Council appointing the Commission.

service trades, subject to extreme and prolonged fluctuations, and which introduced new rigidities and obstacles to rapid adjustment.

In the thirties the vulnerability of the whole economy to uncontrollable external factors, as well as certain internal maladjustments and weaknesses, brought great distress. The former lifeblood of the whole system—the circulation of the wheat exporter's dollar—was choked off at the very source. As the system slowed down, depression burdens were very unevenly and haphazardly distributed. At the same time overhead costs and accompanying rigidities increased, and intensified the maldistribution of income. Monetary policy was not directed, during the early years of the depression, to alleviate the burden or distribute it more evenly. Tariff policy, directed to maintain employment in some regions, threw a greater burden on the primary producers. Great efforts were made to adjust the regional economies to a local base, and there was a natural rise of local vested interests and local protectionism.

The Maritime Provinces have relied in recent years on an ambitious program of public works. Quebec has attempted to meet a particularly serious unemployment problem by back-to-the-land and colonization plans directed to secure greater self-sufficiency, and by extensive public works. Ontario was fortunate in finding a new frontier and a new stimulus in its own northern mines, and this has done much to compensate for the loss of western markets and to relieve Ontario in some measure from dependence on the traditional transcontinental economy. The Prairie Provinces bore the full brunt of the collapse of the system, with no assistance from national policies in the early years of the depression, and with the added strain of an unprecedented series of crop failures. But there proved to be a limit even to the primary producers' capacity to absorb punishment, and in recent years relatively large transfers within the federal fiscal system, direct assistance to wheat producers, and involuntary write-offs by eastern creditors of western debts have redistributed a part of the burden. British Columbia, after heavy losses in both Prairie and external markets, greatly increased its volume of exports and eventually emerged into a period of relative prosperity which has left it, like Ontario, somewhat inclined to regard the terms of its partnership in the transcontinental economy as unfavourable because of its potential liabilities.

There have thus emerged in Canada chronically distressed areas (especially those which have no alternative to wheat production) and chronically distressed classes, especially unskilled labour. With the breakdown of integrating forces some regions seem to have been left outside the organized national economy and to have become more and more dependent on specialized activities and on assistance from the Federal Government; the national income has substantially decreased and the surplus national income, i.e., the margin over subsistence cost, has suffered a proportionately greater decline; the national income is more unevenly distributed (both between regions and between classes) and the disparity in the distribution of surplus income is, of course, even greater.

We must exercise caution in projecting these tendencies into the future as the results of past attempts at prophecy have shown. The present tendencies *may* continue and any sane policy must take them into account. But there may be an abrupt change and any comprehensive plans for the future should be of the most flexible character. Pressures will vary, and shift from one industry, area, or class to another. However, one positive conclusion stands out: the situation is so serious that conflicts of policy between Dominion and provinces or between province and province have become a luxury which Canada cannot afford, and the sterility of policy which chronic conflict is apt to engender may be an even greater evil than conflict itself. Fiscal policies which have profound effects on the magnitude and distribution of the national income must be in a single hand and responsibility for action or inaction must be assigned with unmistakable clarity.

The implications for public finance of the economic and social changes which have occurred in Canada are of far-reaching importance. As a result of the transcontinental economy which was deliberately built up, with its notable concentrations of surplus income, and later as a result of the disintegration of this economy, no logical relationship exists between the local income of any province and the constitutional powers and responsibilities of the government of that province. In fact, the great expansion in organized social services which has developed makes the existing relationship contrary to all common sense. Expenditures almost automatically increase when income falls and revenues decline. The harder any particular area is hit, and the more impoverished its people, the greater are the burdens which that area must carry. Even if it were possible to revert to the localized economies of 1867, it would be unjust to do so, for national partnerships cannot be dissolved

when one of the partners finds the association onerous. The constitutional division of taxing powers, applied to the existing regional distribution of taxable income, has produced surpluses in some provincial budgets, and in others deficits which have inevitably been reflected in reductions of those community services which Canadians have come to look on as the minimum which their governments should supply. As a result Canadian citizens in some provinces are receiving educational, health and other social services much inferior to those in other provinces and (quite apart from any question of governmental extravagance or the provision of unusually costly services) Canadian citizens in some provinces are required to contribute a much larger portion of their income to the government of the province than those in other provinces. Provincial ability to borrow, and the fortunes of investors in provincial securities have fluctuated widely, erratically, and sometimes disastrously. Businesses operating on a national scale are hampered by increasing special (and in some cases discriminatory) impositions and regulations. The possibility of off-setting the impact of world-wide disturbances and depressions on the Canadian economy by financial and monetary policies has been virtually annihilated by the lack of co-ordination in governmental policies. In brief, the present distribution of public finance powers both sabotages any effective action to increase the national income and actually depresses that income.

Another unfortunate result (noted in our analysis of the public finance system)[2] of the present distribution of financial powers is the incentive to rely on taxes on costs instead of taxes on surpluses. By taxes on costs we may include not only direct taxes on business imposed without reference to the net incomes of the business owners, but also consumption taxes (including property taxes on residential and commercial buildings) which affect costs of living, wages, and eventually all costs of production. Consequently, many resources which would be used at lower production cost levels must be left idle, and the tendency to increase taxes on costs during times of depression greatly weakens Canadian competitive power abroad, and increases rigidities and difficulties of adjustment at home. The effect of this pressure on marginal enterprises, on the general level of economic activity, and on the national income cannot be calculated. But now that 30 per cent of the national income is collected by governments and spent by them (either by redistribution in the form of pensions, relief and interest payments, or in payment of the costs of government services) any avoidable waste or inefficiency in the process is serious.

The Commission has consequently attempted in its financial proposals to provide both for a more equitable distribution of governmental burdens and of social service benefits throughout Canada and to make possible a revenue system and a general fiscal policy designed to stimulate rather than to depress the national income.

A comparison of the fiscal position of the provinces and an account of their fortunes during the depression will be found in Book I.[3] It is important to note that some of the provinces are quite unable to meet their obligations and at the same time to provide the social and educational services which Canadians have come to look upon as essentials. Such a situation cannot leave the other provinces unconcerned. The investors in other provinces will suffer in the case of public or private insolvency among their neighbours. The producers in other provinces will suffer if markets are destroyed. Migrants must be admitted from depressed provinces, and it is not merely a nuisance and an expense but a positive danger to the more prosperous provinces if these migrants are illiterate or diseased or undernourished. Nor is the danger of competition from substandard labour in a distressed province a peril which can be disregarded. More important than all these considerations taken together is the danger to national unity if the citizens of distressed provinces come to feel that their interests are completely disregarded by their more prosperous neighbours, and that those who have been their full partners in better times now tell them they must get along as best they can and accept inferior educational and social services. The Commission's proposals will inevitably place on the shoulders of taxpayers in the more prosperous provinces heavier burdens than those which they bear to-day, but these burdens will not be so heavy as those which they will have to bear, directly from increased taxation and indirectly through restriction of the national income, if present conditions continue.

Following, and supporting, the proposals of Plan I is a chapter dealing with the three taxes which are affected by the Commission's recommendations. It shows that the tax allocation recommendations of the Commission are not only

[2] See Book I, Chap. VII.

[3] See Chaps. VI and VII.

desirable on general considerations, but also stand on their merits in each individual case.

Expenditures can be briefly analyzed as they have been considered in greater detail in other parts of this Report.[4] In considering the relative fiscal needs of provincial governments, we are mainly concerned with a few divisions of their expenditures: on education; on social services; on development. It is of national interest that no provincial government should be unduly cramped in any one of these respects. Education is basic to the quality of Canadian citizens of the future and it is highly undesirable that marked disparities in the financial resources available for education should exist as between Canadian provinces. Social services, like education, cannot be subjected to marked disparities without serious reactions on the general welfare and on national unity. An appropriate developmental policy is required in each province, and the only standard which can fairly be applied is the policy of the province itself over a period of time.

It is also necessary to devote a short chapter to the discussion of federal and provincial debts showing the close inter-relation of borrowing with developmental expenditures, with the maintenance of employment, with general monetary and fiscal policy, and with the control of the foreign exchange value of the Canadian dollar. The importance of borrowing policy, and of the ultimate effects and incidence of government indebtedness, indicates the desirability of a uniform policy based on co-operation between governments which are prepared to seek a common objective by similar action. Municipal debts form a separate problem, although a sharp line cannot always be drawn between provincial and municipal indebtedness. Municipal debts (including debts of all subordinate agencies such as school boards) are considered in a separate chapter.[5]

As striking as the economic interdependence of Canadian provinces, is their political, social, and cultural individuality. The Commission's recommendations are based, in accordance with its terms of reference, on the economic and financial analysis which it has made. But the Commission appreciates the existence of many non-economic and non-fiscal factors, and its recommendations are not those which might have been made for a more homogeneous country. No allocation of jurisdiction, over education and social services for example, would be satisfactory which did not take full account of the strong existing loyalties to provincial traditions and institutions. The Commission's Plan seeks to ensure to every province a real and not an illusory autonomy by guaranteeing to it, free from conditions or control, the revenues necessary to perform those functions which relate closely to its social and cultural development.

In the final chapter of the financial section possible alternatives are discussed, however, and Plan II is presented, which indicates what the position would be, and the probable adjustments which would have to be made, if none of the transfers recommended in Plan I were made with the exception of the assumption by the Dominion of relief for employables as recommended in the chapter on Social Services. A comparison is made of the two Plans, which is largely the same thing as a comparison of Plan I with perpetuation of the present system.

[4] See Book I, Chap. VII.

[5] Chap. VII this section.

Chapter II

PLAN I

The financial recommendations of the Commission, which we term Plan I, may now be summarized. They are developed in greater detail in following chapters.

The Commission's recommendations with regard to the burdens of government are concerned with social services and debt service. The social service recommendations contemplate the assumption by the Dominion of the full cost of unemployment relief for employables;[1] and, through National Adjustment Grants, provision for at least average Canadian standards for all other social services in all provinces.

It is not a simple matter to estimate the financial changes which will result from the assumption by the Dominion of the cost of unemployment relief. For the purposes of our calculations, we have assumed that the Dominion will provide for the maintenance of the unemployed on the scales adopted by the provinces and that the provinces will not undertake relief works of any sort. Should the Dominion choose to resort to relief works, either directly or by subsidizing works which the provinces will then execute as part of their developmental programs, the cost to the Dominion would be greater than under our assumption but no additional charge will be imposed on the provinces. In short, the provinces will have no further costs in connection with unemployment. In calculating the effect on the Dominion budget we have assumed that the Dominion will provide for the unemployed by direct relief. This is assumed simply for purposes of illustration, since it is necessary to establish some common yardstick, and it is not a recommendation of policy. These assumptions neglect any expenditures which the provinces may choose to make in rehabilitating or training the unemployed classed as unemployables, as these expenditures are included under our estimate of an appropriate per capita expenditure for social services in general.

As regards the remaining social services, the Commission has discussed several fields in which expansion appears likely. For instance, the Commission has considered the possibility of expansion in public health services to provide medical services and hospitalization for those who cannot afford to pay their cost. But under Plan I, no special allowance in either Dominion or provincial estimates has been made for any such *new* expenditures. Rather, an attempt has been made to frame a plan which is sufficiently elastic to meet new situations as they may develop without undue strain on any section or class of the country.

The Commission recommends that all provincial debts (including both direct obligations and those guaranteed by provinces)* should be assumed by the Dominion, and that the provinces should pay to the authority charged with the administration of these debts a fixed annual sum equal to the interest received by each province on its investments (or paid directly by subsidiary bodies) in the most recent appropriate fiscal year. This recommendation is based on a number of considerations. In the first place Dominion and provincial credit have become to some extent interlocked. In the second, no important change can be made in the burdens of government and the revenue sources available to governments without taking into account the position of bondholders who have purchased securities on the basis of existing arrangements. In the third place, it is easier for the Dominion than for individual provinces to obtain the economies incidental to the conversion of these debts to lower interest rates as they mature. A portion of the provincial debt is deadweight debt which represents either developmental expenditure or borrowing to meet relief costs. It is not practicable to break down the debt in such a way as to apportion it between investment and extravagance. If the debt were left in provincial hands it would be difficult and most unrealistic to make an estimate of the fiscal needs of each province which would allow as a legitimate need the debt charges which did not represent undue extravagance and not to provide for charges on that portion of the

[1] See p. 24.

* The special position of the debt of certain Quebec hospitals and other charitable and educational institutions for which interest and amortization is provided by subsidies from the provincial government is discussed at p. 124.

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debt which did represent undue extravagance. The difficulty of breaking down the debt is extreme in the case of debt incurred in recent years for relief works. Finally, if under our proposals some provinces may appear to benefit more than others, it should be noted that the recommendations for debt assumption must not be considered in isolation but as an integral part of a general rearrangement, which must be examined as a whole before their equity can be determined.

Municipal debts are, in the main, a separate problem, but the municipal situation in Quebec is unique. As noted in Book I[4] local governments in the Province of Quebec have borne a much larger share of joint provincial-municipal functions and expenditures than in other provinces. This has, of course, been reflected in the relative position between provincial and municipal debts. Provincial net debt service in Quebec in 1937 was but 23 per cent of the combined provincial-municipal net debt service, as compared with an average of 58 per cent in the other eight provinces. Consequently, in order to compensate for this special factor and give equality of treatment, the Commission recommends that the Dominion assume *either* net provincial debt service, *or* 40 per cent of the combined net provincial and municipal debt service, whichever is the larger. Application of the 40 per cent formula would affect any province in which municipal debt greatly exceeded provincial debt. In practice Quebec alone is affected.

It is unnecessary at this stage to enter into detail as to the technique of the debt transfer recommended. It would have to take place as at a fixed date—we might suggest December 31, 1939. (All provincial debt incurred after that date would be charged against the province concerned, i.e., the Dominion would assume it but the province would pay interest on it to the Dominion.) An agency would have to be set up for the technical management of the debt. This would be solely an administrative matter and would presumably be combined with the technical management of the Dominion's present debt. This agency would presumably offer new Dominion bonds in exchange for the outstanding provincial bonds. There are two possible methods by which this could be done. Either provincial bonds might be replaced by Dominion bonds of like interest rates and like maturities; or provincial bonds might all be made callable (at par, or at the best selling price between say, January 1, 1939, and December 31, 1939, whichever was the higher), and refunded by the Dominion when advantageous to do so. If the first course is followed, and if we assume the possibility of refunding maturities at an average rate of 3¼ per cent, there would be a progressive reduction in interest charges which would reach $5 million annually by 1944, and $9 million by 1949. If the second course is followed, and if we assume the possibility of refunding all bonds at an average rate of 3¼ per cent, wherever this would result in any appreciable saving under the callable provisions suggested, an immediate reduction in interest charges[5] of $7·8 million would result. (The bonds affected would be the higher coupon issues of the four Western Provinces.) The reductions in interest charges noted are, of course, gross figures, and no allowance is made for reduced government investment and sinking fund earnings, and lower tax yields; in other words, the net saving to governments would be appreciably less.

The procedure to be adopted is, the Commission thinks, solely a matter of government policy. If provincial bonds are replaced by Dominion bonds of like terms and interest rates, fortuitous profits will accrue to some holders. A special capital gains tax, or a transfer tax on the first sale, although it presents many practical difficulties, would appear appropriate and equitable in such circumstances. The monetary cost of strictly honouring the letter of the contract is not large, but it will produce unearned profits for a favoured few. However, both proposals would result in some fortuitous profits, and to make the bonds immediately callable, on the terms suggested, would involve violating the contract, with possible repercussions on Canadian credit, for comparatively negligible temporary savings.

The debt agency would receive from each province an annual payment equal to the interest which that province received from its investments (including security portfolios, wholly-owned utilities, advances to commercially operated departments, and all other interest or profit-earning assets), and the interest which boards and commissions, financed by securities guaranteed by the province, paid directly in the latest appropriate fiscal year period. This payment would be a fixed one unless special arrangements were made to amortize it. The Dominion would pay annually to the agency the balance necessary to meet total interest charges. Thus, the Dominion would bear the total cost (including exchange premiums) of servicing all provincial debt which was not directly self-supporting during an agreed on fiscal period, and provinces would be bound to pay over a sum equal to their interest receipts during the same

[4] Chap. VIII.

[5] Assuming payment on Alberta bonds at full interest rates.

period. If provincial investments and utilities increased their returns, this would be a clear gain to the provincial governments concerned; if, on the other hand, earnings fell the province would have to make up the difference (between the fixed payment to the debt agency and the province's interest receipts) from general taxation.

The provinces would no longer have to provide sinking funds. The Dominion would presumably do so as part of its general policy with respect to its total debt. In our review of the Dominion fiscal position we note how a sliding scale of sinking fund payments in prosperous years combined with deficit financing in depression years would contribute to smoothing out the business cycle.

Under this Plan, future direct and guaranteed borrowings by provincial governments and all their subsidiaries, including all local and municipal governing bodies and their subsidiaries, would be required to be payable, as to principal and interest, in lawful money of Canada only, unless special exceptions were made, as presumably would be done, for example, in the case of normal municipal refunding, by the Dominion Government on the recommendation of the Finance Commission. If a province wished to have the debt charges on new borrowings included in calculations for any future adjustment grant revisions, it would have to submit its loan proposal to whatever body was agreed on as appropriate for that purpose. In the event of approval by such a body (which would take account of all the circumstances including the credit position of the Dominion), the debt charges would be considered part of the expenditure of the province for purposes of calculating National Adjustment Grants. In any other circumstances the borrowing would be on the sole credit of the province, and the debt charges would have to be met entirely by the province, and excluded in calculations of National Adjustment Grants.

The responsibilities recommended to be transferred to the Dominion may be briefly recapitulated. It is recommended that relief for unemployed employables, and net provincial debt service (or 40 per cent of the combined net provincial and municipal debt service if larger) be assumed by the Dominion, and that all provincial governments be put in a financial position, by National Adjustment Grants from the Dominion, to supply education and welfare services, equivalent in quality (although not necessarily in cost) to the national average, and to maintain developmental expenditures at their individual 1928-31 averages.

Every one would agree that the Dominion can assume these new burdens and responsibilities only if its revenues are correspondingly increased. Consequently, the Commission recommends that the transfers of responsibilities as summarized above be made conditional on provinces (and municipalities) withdrawing entirely from the personal income tax, corporation tax, and succession duty fields, and agreeing to the cancellation of all existing subsidies from the Dominion. A single qualification is the recommendation that a portion of the corporation tax collected from mining and oil-producing companies be returned by the Dominion to the governments of the provinces in which the mine or oil well is located. The tax allocation recommendations of the Commission are discussed in Chapter III.

The Commission's proposals for future intergovernmental transfers, to replace the chaotic and illogical subsidy system now existing, and to provide for balanced budgets and average standards of services in every province, are simply:—

(1) a National Adjustment Grant for certain provinces as recommended;
(2) an emergency grant if made necessary by some abnormal conditions.

The Commission recommends that the National Adjustment Grants, as initially calculated, be irreducible.

It is recommended that the National Adjustment Grant be subject to review by an independent advisory commission every five years, and that this commission would recommend to the Dominion an increase in the adjustment grant whenever a provincial government established that it could not supply Canadian average standards of service and balance its budget without taxation (provincial and municipal) appreciably exceeding the national average in relation to income. (The increase, as distinct from the original adjustment grant, would not be irreducible, but would be subject to review every five years.)

This advisory body, which we may for convenience call the Finance Commission, would of course only have power to make recommendations to the Dominion Government, but it would play a most important role in the recommended new structure of Dominion-provincial relations. In addition to making a periodical review of National Adjustment Grants, the Finance Commission would also be the appropriate body to examine and report on claims for emergency grants whenever circumstances necessitated this, and presumably on the application of a province for any loan the service of which it desired to have included as part of its budget in calculating its National Adjustment Grant. The emergency grant—unlike the irre-

ducible National Adjustment Grants—would be made for a year at a time only, and reduced or suspended as soon as conditions justified it. Provinces receiving emergency grants would, during the same period, by simply maintaining existing tax rates, and in consequence of the abnormal fall in the incomes of their citizens be automatically imposing heavier taxation on their citizens than the national average in relation to income. If any special conditions were thought desirable they could be recommended by the Finance Commission, and the emergency grant made conditional on their implementation.

The constitution of the Finance Commission would be determined by the Dominion Government, which it is to advise. The necessity for continuity of policy, experience and intimate knowledge of the problem, and political independence is obvious. We are also keenly aware of the need for further economic and financial research along the lines which we have attempted to develop, for continuation and improvement of the economic and financial statistics which we have gathered, and for refinement and development of technique in measuring the relative financial positions of governments and making equitable inter-governmental adjustments in the future. These functions will require a small, but highly competent, permanent research staff and secretariat. Such a body, which would become a clearing house for economic, financial, and administrative information relevant to Dominion-provincial relations and public finance policy, should be able to perform many valuable services for Canadian governments. It might make special investigations and reports on the request of individual governments. It might, if it were so desired by the Dominion-Provincial Conference, meet a long-felt need and act as secretariat for that body. No more, of course, can be done at this stage than suggest the possible scope of usefulness of such a body; much will depend on the use which governments will choose to make of it, and on the quality of the personnel, but there can be no question of the very great and desirable benefits which might be achieved.

It should be made clear that while the adjustment grant proposed is designed to enable a province to provide adequate services (at the average Canadian standard) without excessive taxation (on the average Canadian basis) the freedom of action of a province is in no way impaired. If a province chooses to provide inferior services and impose lower taxation it is free to do so, or it may provide better services than the average if its people are willing to be taxed accordingly, or it may, for example, starve its roads and improve its education, or starve its education and improve its roads—exactly as it may do today. But no provincial government will be free from the pressure of the opinion of its own people and if, when it applies for an increased adjustment grant on the basis of need, it has to produce figures which indicate that although it might, without specially heavy taxation, have provided better education but did not do so, it has, of course, to justify this to its own voters.

The following chapter shows the effect on provincial budgets of the tax, expenditure and debt transfers recommended, and the adjustment grants which would be necessary. After testing various years and averages of various combinations of years, the Commission has adopted the year 1937 (i.e., the fiscal year of each province which is nearest to that calendar year) as the most satisfactory base, but an attempt has been made to note, and to make adjustments for, any features which might be considered abnormal in that year. To test this calculation, summaries of the effect on provincial budgets have been made, based on the average of the actual results in 1936 and 1937 (and 1938 where available), and the budget estimates of 1938 and 1939. It should be clear that these years have been chosen simply as the most satisfactory for purposes of illustration, and there is no suggestion that the settlement would in an way be retroactive. These were "recovery" years, and consequently show the operation of the plan as less favourable to the provinces and municipalities, and more favourable to the Dominion, than would be the case in depression years. On the other hand, if recovery continues and assumes the proportions of a boom, the advantages to some provinces and municipalities would not be as great as potentially possible under the present system (although the Plan provides against any loss), but the burden on the Dominion Government (and Dominion taxpayers) would be substantially reduced. Conversely, any serious economic recession would greatly enhance the benefits to provincial and municipal governments, and impose a heavier load on the Dominion. In Tables 21-30 in Book III complete details of the effect of the Plan on each government's budget are given for individual years.

Before examining how these main provisions of the Plan will apply to individual provinces and computing the adjustment grants which have to be paid, a few general comments may be made which apply to all provinces.

Under Plan I the financial position of every provincial government, without exception, will be improved, although in varying degree. More

important, the financial future and security of every provincial government will be guaranteed. Each province will be left with, relatively speaking, a remarkably stable revenue. A large part of the revenue of some will consist of a fixed cash payment from the Dominion. The taxes with highly variable yields will have been transferred to the Dominion. Those with fairly constant yields will remain. (The chief exceptions are the public domain revenues and the mining tax rebate in some provinces, and the profits from the sale of liquor.) It is implicit in the Plan, but should be clearly stated, that the Dominion will respect the tax fields left to the provinces. Adjustments in the joint Dominion-provincial-municipal tax structure will undoubtedly be necessary and desirable from time to time. But the Dominion can no longer consider itself a free and independent agent to take unilateral action to this end when it pleases. The essence of the Plan is to leave provinces and municipalities with adequate, stable revenues, and this would clearly be defeated if the Dominion should extend its taxation into fields already occupied by the provinces or on objects jointly taxed without making satisfactory compensatory adjustments. Such action would violate the whole spirit of the arrangement. It would also necessitate a general increase in adjustment grants. It is the Commission's view that these transfers should be kept to a minimum, and the taxation and expenditure allocations recommended in Plan I so provide.

The provinces will have no fixed charges in the technical sense, although, of course, many current expenditures are not in fact controllable. However, the worst of the uncontrollable social service costs will have disappeared as the Dominion will bear the cost of unemployment relief for employables, and the provinces and municipalities will not be confronted with this burden at a time when their revenues are declining. Any chronic inability to maintain average standards will be met by a National Adjustment Grant, and any sudden blow by an emergency grant.

Every province will know that if there is widespread prosperity in which, however, it does not share, there will be a tendency for its adjustment grant to increase for two reasons: the prosperous provinces will tend to expand their social services and so raise the national average; the provincial and municipal taxation in the prosperous provinces will become a decreasing proportion of the income of their people and a lower Canadian standard will thus be set as regards weight of taxation.

In estimating the expenditures on social services and in considering the weight of taxation it has been necessary to treat each province and its municipalities as a unit since the separation of functions between provincial and municipal governments is not uniform in Canada. It is probable that in every province some sort of readjustment of the financial relations between province and municipalities would follow the implementation of the Plan. This would not only do something to mitigate the burden on real estate, but would, if wisely carried out, remove fiscal injustices as between different municipalities in the same province. The savings to municipalities from the Commission's recommendations amount, on the 1937 basis, to slightly more than $20 million, or 8 per cent of the total real property tax. This saving, of course, is not evenly distributed, but goes largely to a few specially distressed areas. This calculation makes no allowance for any redistribution of education and welfare burdens, and possible assumption of larger shares of their joint cost by provincial governments which are put in a better financial position.

The immediate effect of Plan I on Dominion finances would be adverse, since in some degree provincial finances would have been improved at the expense of those of the Dominion. In the long run there should be certain compensations from two sources: lower net debt charges as refunding at lower interest rates becomes practicable, and a drop in the out-of-pocket cost of unemployment. Moreover, the Dominion would be in a better position than the Dominion and the provinces are today to get maximum revenue from income taxes and succession duties with minimum cost and sacrifice to the taxpayers.

In some cases the taxpayers in a province would pay more and in some cases less under the proposed Plan. Roughly speaking income taxpayers would pay more in those provinces which have no provincial income tax, and less in a province with an exceptionally high provincial income tax. The net immediate fiscal advantage of the Plan to the people of a province should be assessed by taking account of these losses and gains as well as of the gains (there are no losses) of the combined provincial and local governments in that province.

An important advantage of Plan I which cannot, however, be shown statistically is that provincial and municipal governments will be put in a financial position which will make it unnecessary for them to resort to sales taxes and other nuisance or extraordinary levies. The province (and even more so, the municipality) is not a desirable unit for sales tax purposes from the point of view of efficient administration, and resort to this tax has the very dangerous and undesirable feature of erecting miniature tariff walls throughout Canada.

Before proceeding to examine in detail the effect which the adoption of Plan I would have on the finances of each province and on those of the Dominion it will be convenient to recapitulate the main features of the plan.

1. Relief to the Provinces

The Dominion would relieve the provinces (and the municipalities) of the whole burden of relief for the employable unemployed and their dependents.

The Dominion would assume the whole of the provincial (but not the municipal) debts, and would in effect bear the deadweight cost of this debt, as it would collect from the provinces no more than the return which they receive today from their revenue producing assets. The provinces would thus have no further provisions to make for sinking funds.

In the case of Quebec, where the provincial debt is an unusually low proportion of combined provincial and municipal debt, the Dominion would assume 40 per cent of the net, or deadweight, cost of combined provincial and municipal debt service.

2. Withdrawal by the Provinces from certain Tax Fields

The provinces would cease to use the following forms of taxation: the personal income tax; taxes on corporations or corporate income which would not be imposed on individuals or partnerships; and succession duties.

3. Surrender of Subsidies

The provinces would surrender all existing subsidies.

4. Remaining Provincial Revenue Sources

The Dominion, while retaining its unlimited taxing powers, would recognize an obligation to respect the remaining revenue sources of the provinces.

In addition the Dominion would pay annually to each province a sum equal to the tax which that province would have received had it collected from mining and oil producing companies 10 per cent of the net income which was derived from mining, smelting, and refining of ores and oils produced in the province.

5. New Provincial Revenue Sources

The Dominion would pay annually a National Adjustment Grant to certain provinces. The amount of the grant (which will be computed in the following pages) would be such as to enable each province (including its municipalities), without resort to heavier taxation than the Canadian average, to provide adequate social, educational and developmental services. The weight of taxation is estimated by comparing the provincial and municipal taxation with the total income of the province. The test of adequacy of social and educational services is found in the Canadian average for these services. The adequacy of developmental services is tested by what the province itself has done in years which may be considered normal.

The original adjustment grants would be irreducible. Increases would be granted (on the advice of the proposed Finance Commission) at appropriate intervals if they were needed, in order to enable a province to perform its functions adequately without exceptionally heavy taxation.

In addition to the National Adjustment Grants payable to some provinces the Dominion would pay an Emergency Grant to a province in which abnormally bad conditions prevailed. Such a grant would be made for a year at a time, reduced as soon as possible, and eliminated as soon as possible.

6. Future Borrowing

Future provincial and municipal borrowing would have to be in lawful money of Canada.

Future provincial borrowing might be either (*a*) as today on the sole credit of the province, in which case the debt charges could not be counted as part of the financial need of the province if it applied for a National Adjustment Grant (if it were not receiving one) or for an increase in its grant; or (*b*) on the credit of Canada, if the proposed Finance Commission is asked to approve it, and after reviewing all the circumstances does so.

7. Freedom of Provinces

No control of provincial expenditures is contemplated. Every province would be quite free to improve its services, by specially heavy taxation, or to have specially light taxation by reducing its services, or to develop some services in excess of the Canadian average at the expense of others which would remain below it.

1. The Province of Prince Edward Island

In reviewing the economic and financial position of Prince Edward Island in Book I[6] we noted the difficulty of making comparisons which are not misleading between its statistical position and those of other provinces. Both on a per capita basis, and in relation to total income, the Province appears to be in a very favourable position respecting debt and taxation. The debt is small in part because the chief transportation problem of the Island—communication with the mainland—has been the concern of the Dominion since the Province entered Confederation, and in part because the lack of public domain has limited the need for costly developmental expenditures. Owing to its small and compact area the Province has been able to get along without the elaborate and expensive arrangements for local government which have been necessary in other provinces. There are none of the problems and high costs which accompany urbanization. But these advantages have been accompanied by corresponding disadvantages. The revenue from public domain has been negligible. The governmental unit is so small that, in spite of low salary scales and economy in administration, and of the virtual absence of municipal governments, the overhead costs of the bare framework for legislation, administration, justice and education have been relatively high. The per capita income of the people is low, and is in large part an income in kind, while the cash proportion fluctuates widely because it depends on the markets for a few specialized products. The taxable income is consequently low and variable. This difficulty is enhanced by the absence of urban or corporate concentration of wealth, and therefore of the small proportion which net or "surplus" income bears to the gross income of the people. Prince Edward Island does not gain greatly by the assumption of unemployment relief by the Dominion (which the Commission recommends), for, in spite of the cessation of emigration in the thirties, unemployment has not been a serious problem in the Island. This was the result of two circumstances: the strength of family responsibility in the economic life of the Island and the possibility of enforcing it, and the government's highway modernization program which absorbed surplus labour. The cost of the public works program has, however, approximately doubled the outstanding debt of the Province during the thirties and, if the Dominion assumes the burden of unemployment relief, the Province will be relieved in future of the cost of relief works which have been charged to capital account. Finally, it must be remembered that the sources of revenue which (under the Plan) the Province would surrender to the Dominion are, for the reasons given above, not very productive in Prince Edward Island.

The financial credits and debits to the provincial and local governments in Prince Edward Island under Plan I, before provision for any National Adjustment Grant, may be summarized as follows, taking the year 1937 as an example:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON PRINCE EDWARD ISLAND
(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$ 221,000	Taxes transferred to the Dominion	$ 244,000
Relief to employables assumed by Dominion	21,000	Former subsidies	657,000
Savings on tax collection costs	10,000		$ 901,000
	$ 252,000		
Sinking funds	208,000		
Relief works charged to capital account	288,000		
	$ 748,000		
Deterioration in financial position of provincial government before considering the need for a National Adjustment Grant	**153,000**		
	$ 901,000		

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 30,000		
Municipal relief works	34,000		
	$ 64,000	**Gain** to local governments	$ 64,000

[6] Chap. VII.

This summary shows that, in respect of 1937, the application of the general provisions of Plan I to Prince Edward Island would impair the financial position of the Province by $153,000 and improve that of the local governments by $64,000. It remains to consider whether the figures for 1937 are a safe guide for future years, and whether the position of Prince Edward Island makes a National Adjustment Grant necessary.

The taxes transferable to the Dominion under Plan I were the largest on record in 1937 but some further expansion was expected. (On the other hand these taxes would yield less if there is no longer any incentive to organize holding companies in the Province to avoid taxation elsewhere—as provided in the Commission's corporation tax recommendations.) The net burden of debt service was expected to increase and would have offset the estimated increase in the transferred taxes. The sources of revenue which would remain with the Province are peculiarly stable since they comprise gasoline, automobile and land taxes, while the two items most subject to fluctuation, viz., public domain revenue and revenue from liquor control, are of negligible importance as compared with those of other provinces.

The desirability of an adjustment grant rests on the need for balancing the provincial budget on current account and for increasing expenditures on education, welfare services and development so as to provide services not markedly inferior to those in other provinces, without Prince Edward Island being compelled to resort to heavier taxation than imposed elsewhere in Canada.

The Commission estimates that an annual increase in the expenditures on education and public welfare (principally on the latter) of $200,000 to $250,000 would suffice to achieve substantial real equality with other Canadian provinces. The dollar expenditure per capita for these purposes would still be much lower than it is elsewhere, i.e., much lower than the statistical average for Canada, but the Commission has taken account of the various factors which tend to make these services relatively less costly in Prince Edward Island where lower salaries are possible because of the lower earnings in alternative occupations, and where the proportion of rural to urban population is relatively high.

The Commission therefore recommends an annual National Adjustment Grant of $750,000 for Prince Edward Island.

The relatively small scale of local government in Prince Edward Island and the relatively small amount of relief expenditures[7] make the direct effects of the Commission's recommendations on municipalities in Prince Edward Island of less importance than in other provinces. It should also be added that accurate statistics, particularly on the division of employables and unemployables, are not obtainable, and the Commission's estimates are only approximate. Nevertheless, it would appear that direct relief to employables during the thirties has cost municipalities about 5 per cent of their budget, and provision of relief works another 5 per cent. In addition to these savings (which would approximately balance municipal budgets) there are possible indirect benefits, which will emerge from the fact that the Provincial Government will have been put in a position to bear a larger share of education and welfare costs.

If the Commission's recommendations are implemented the Provincial Government will have at its disposal a remarkably reliable revenue, and will find that its expenditures are, at least in the technical sense, almost entirely controllable. Before the new expenditures for which the adjustment grant would make provision are undertaken, the budget of the Province would appear in round figures as follows (based on the 1936-39 average):—

BUDGETARY POSITION OF PRINCE EDWARD ISLAND UNDER PLAN I
(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$ 680,000	Expenditures	$1,170,000
National Adjustment Grant	750,000	**Surplus***	**260,000**
	$1,430,000		$1,430,000

* Surplus available for expansion of public welfare, education, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

[7] In the four years 1934-37, on direct relief and relief works (excluding any direct Dominion expenditures):

	$000
Dominion contributions were	1,000
Provincial expenditures (on current account and capital account) were	1,326
and Municipal expenditures (on current and capital account) were	222
	2,548

2. The Province of Nova Scotia

Nova Scotia's finances in recent years have been dominated by the large public works program of the Provincial Government, and as noted, this program has also had a profound influence on the Province's economy.[8] Important considerations for our present purpose are consequently the extent to which the current statistics of Nova Scotia public finance are influenced by the capital program, and what the position is likely to be, under the present system, when this program is completed. It would seem clear that the somewhat better than average relative position of the Nova Scotia economy in recent years (and the consequent buoyancy of governmental revenues) has been due in large measure to the Government's large capital expenditures, and these expenditures have also done much to reduce the cost of relief. Even if the new capital equipment fulfils all expectations and not only strengthens the economy generally but proves self-supporting, there will still be a drastic adjustment necessary when the stimulus of new construction passes. Attention is drawn to this because under the terms recommended in the Commission's Plan the strain of this adjustment would be borne by the Dominion, and not, as at present, largely by the Province. It is impossible, of course, to estimate this in monetary terms, but it is necessary to point out that the current public finance statistics contain elements of serious instability, and understate the advantages of the Plan to Nova Scotia.

At present Nova Scotia is making a determined effort to overcome certain deep-seated and chronic economic disabilities. It is the purpose of our Plan to make such a policy possible, wherever it would appear desirable, without requiring undue reductions in other services of government, undue sacrifices by provincial taxpayers, or threats to the solvency of the particular unit.

The financial credits and debits to the provincial and local governments under the general provisions of our Plan, and before provision for any National Adjustment Grant, may be summarized as follows, based on the year 1937:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON NOVA SCOTIA
(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$2,616,000	Taxes transferred to Dominion	$1,426,000
Relief to employables assumed by Dominion	236,000	Former subsidies	1,953,000
Savings on tax collection costs	65,000		
	$2,917,000		$3,379,000
Sinking fund	285,000	**Improvement** in financial position before consideration of the need for a National Adjustment Grant	**996,000**
Relief works charged to capital account	1,173,000		
	$4,375,000		$4,375,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 172,000	Surrender of income taxes	$ 47,000
Municipal relief works	69,000	**Gain** to local governments	**194,000**
	$ 241,000		$ 241,000

The effect of the Plan would, therefore, be to improve the financial position of the Provincial Government by $996,000 (owing to freedom from the need for borrowing for relief works) and that of the local governments by $194,000. It is then necessary to consider whether or not the Province should receive a National Adjustment Grant, if it is to have a balanced budget and provide services at the Canadian average.

Education and welfare expenditures in Nova Scotia have increased during the thirties in relation to those of other provinces but are still materially below the national per capita average. Even when allowance has been made for somewhat lower costs,

[8] See Book I, Chap. VII and VIII.

for less urbanization, and a more self-sufficient family economy than are to be found in most of the other provinces, the Commission estimates that $600,000 a year more would have to be spent by provincial and local governments to put educational[9] and social services on approximate real equality with those in other parts of Canada. On the other hand the expenditures on development and on highways have exceeded the Commission's estimate of minimum requirements by an average of about $100,000 annually in recent years.[10]

The Commission, however, has given consideration to the special circumstances and problems of the Nova Scotia economy, and to the frugality of its general administration, and in its adjustment grant recommendation of $800,000 has chosen the higher rather than the lower of possible figures.

The Commission estimates that Nova Scotia's remaining provincial and municipal taxation, in relation to income, is below the national average by an amount in excess of that necessary to bring Nova Scotia's expenditures on education and public welfare fully up to the per capita dollar average of Canada. (Nova Scotia has at present no personal income tax, and our proposals would, therefore, require larger contributions from Dominion income taxpayers there.)

Provision is thus made for the recommended expansion in education and welfare expenditures, and for a small surplus. In addition there would seem good reason to expect moderate expansion in the next few years in provincial revenues, particularly in automobile and gasoline taxation as a result of the improved highways.

The net debt service, of which the Province would be relieved, is at present increasing at the rate of $200,000 a year.[11] Relief expenditures, in large part owing to the highway program, have been relatively low, but the contingent liability in this connection is important.

Local governments have benefited substantially from the Provincial Government's highway program in recent years, and their share of direct relief (to employables) and relief works has fallen from a 1931-35 average of $600,000 to about $200,000. Offsetting the improvement which would result from Dominion assumption of this burden, and the indirect benefits which might result from increased provincial expenditures on education and public welfare, is the $45,000 to $50,000 in municipal income taxes which would be cancelled by municipalities under the Plan. This would only affect the city of Sydney significantly, and the Provincial Government would be in a position to make any adjustment which would appear equitable under the circumstances.

At present, Nova Scotia municipalities enjoy, as a whole, a small surplus. Application of the Commission's recommendation would result in a direct saving to them of from 2 per cent to 7 per cent of their expenditures, depending on the extent of unemployment.

The Provincial Government's budget, before giving effect to any increases in education and welfare expenditures, for which the adjustment grant makes provision, would (on the basis of 1936-39 figures) be approximately as follows:—

BUDGETARY POSITION OF NOVA SCOTIA UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$6,900,000	Expenditures	$6,900,000
National Adjustment Grant	800,000	**Surplus***	**800,000**
	$7,700,000		$7,700,000

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

[9] "Even with the Provincial aid, however, the salaries [of rural school teachers] are low—the equivalent of $10.31 per week if spread over the whole year—and it cannot be expected that the Province will have a highly trained and serious group of rural school teachers so long as salaries remain at the present level." Brief of N.S., p. 130.

[10] It is not the Commission's intention to criticize these expenditures, but simply to note them as essential constituent parts in any calculation of adjustment grants. A province may distribute its expenditures in any way it likes, and the best policy at any one time will depend on the individual circumstances, but it is not entitled to draw on the national purse to support certain undernourished services if it spends with more than average liberality on some other services. It may be highly desirable to emphasize these alternative services, but in fairness to the rest of Canada it should be done either by somewhat greater than average severity of taxation or by somewhat greater than average economy on other services.

[11] Excluding sinking funds, for which an increase of $174,000 is budgeted in 1939 over 1937.

3. The Province of New Brunswick

New Brunswick shares with Nova Scotia the unhappy distinction of the longest unfavourable economic history of any Canadian province. The inferior character of many of the Province's resources, and transportation and marketing difficulties, have retarded economic progress and created chronically impoverished areas and distressed industries. From time to time since the opening of the century the Provincial Government has attempted, by developmental and public works programs, to improve conditions and alleviate distress, and has done so on a much larger scale in the last five years. Earlier efforts proved disappointing, and left the Province burdened with unproductive debt. It is too early to appraise the results of the present program, but the proportion of provincial revenues absorbed by net debt service has become serious. In spite of marked improvement in these revenues in the last three years, the tax basis is still relatively narrow and vulnerable.

An ambitious highway construction program (which produced the extraordinarily high figure of approximately 10 per cent of the income of the people in 1937 and 1938) has dominated both the recent financial and economic history of the Province. It has stimulated general activity, absorbed virtually all the unemployed, swollen government revenues,—and added 30 per cent to the net debt service in two years. As in Nova Scotia, but on a relatively larger scale, the termination of the program is likely to be followed, unless some alternative stimulus appears, by a period of widespread unemployment, distress, failure of business firms, reduced purchasing power, and pressure on profits and wages. For this reason, the calculated gains from the provisions of the Commission's recommendations, striking as they are in the case of New Brunswick, greatly underrate the potential benefits.

Apart from consideration of any National Adjustment Grant, the general principles of our Plan would, if applied to New Brunswick in 1937, produce the following results:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON NEW BRUNSWICK

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$2,784,000	Taxes transferred to Dominion	$ 904,000
Relief to employables assumed by Dominion	28,000	Former subsidies	1,567,000
Savings on tax collection costs	37,000		
	$2,849,000		$2,471,000
Sinking funds	323,000	**Improvement** in financial position before considering the need for a National Adjustment Grant	**1,315,000**
Relief works charged to capital account	614,000		
	$3,786,000		$3,786,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 74,000	Surrender of Saint John income sur-tax	$ 129,000
Municipal relief works	15,000		
	$ 89,000		
Loss to local governments	**40,000**		
	$ 129,000		

The improvement in the financial position of the Province for the year would thus be $1,315,000. On the other hand, the position of local governments (assuming that except in Saint John their "income" taxes are not true income taxes and would not have to be discontinued)[12] would be impaired by $40,000. There would, therefore, have to be some financial readjustment between the Province and some at least of its municipalities.

In spite of the substantial net improvement indicated in the financial position of the Provincial Government, New Brunswick would still require an adjustment grant. New Brunswick (Province and municipalities) is at present spending little more than half what the Commission estimates would be necessary to bring its education and public welfare services to the real (although not dollar) national per capita average. The explanation of this is found in New Brunswick's lack of taxable capacity, and in the heavy drain of its unproductive debt burden. Consequently, although New Brunswick would gain, in round figures, some $1,300,000 under the general provisions of the Plan, the Commission recommends an annual National Adjustment Grant of $1,500,000. This is chiefly to make provision for increased expenditure on education and public welfare (in approximately equal parts) but some allowance has also been made for a moderate expansion in public domain and developmental expenditures. Although the adjustment proposed would not permit New Brunswick to extend its educational and public welfare services to the statistical Canadian average, the Commission believes that its recommendations provide for approximate real equality, and notes that its calculations (which are admittedly most tentative and approximate) show New Brunswick to be undertaxed in relation to the Canadian average, by more than enough to make up the statistical gap should its citizens so wish. (As in Nova Scotia, there is at present no provincial personal income tax, and implementation of our recommendations would lead to an increased, although in no sense an unjust, burden on the wealthier citizens.)

The resulting surplus, which is expected to provide for expanded educational, welfare, and to a small extent, developmental services, is large in relation to total current expenditures, but not in relation to New Brunswick's needs if the Government of that Province is to be put in a position to supply the average Canadian standard of social services and education to its citizens. The Commission does not believe that any attempt to direct or control the expenditure of this surplus is necessary, desirable, or compatible with provincial autonomy.

The Provincial Government's budget, before giving effect to any increases in current expenditures on education, welfare, or developmental services, would (on the basis of 1936-39 figures) be approximately as follows:—

BUDGETARY POSITION OF NEW BRUNSWICK UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$5,100,000	Expenditures	$4,350,000
National Adjustment Grant	1,500,000	**Surplus***	**2,250,000**
	$6,600,000		$6,600,000

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

[12] Municipal taxation in general in New Brunswick is governed by The Rates and Taxes Act (R.S.N.B. (1927), c. 190) which applies to all parishes, cities, and towns in the Province unless (as is often the case) they are governed by some other law. By this Act one-sixth of the sum to be raised is levied as a uniform poll tax on males of full age, and the remainder is levied uniformally on assessable property (real and personal) and income.

Great variations exist in methods of assessment, and frequently an arbitrary income value is set which is far less than the actual income. Exemptions allowed also vary, and in some cases women workers are assessed and in others not. After considering the characteristics of this tax and its administration, its place in the New Brunswick municipal revenue system, and the New Brunswick municipal revenue system in relation to those in other provinces, the Commission believes it more accurate to treat it as roughly the equivalent of a property tax. It has also some characteristics of a poll tax. This does not apply to the Saint John income surtax, which imposes a graduated tax (rising from 1 per cent to 3 per cent) on income as defined for Dominion taxation, and is unquestionably a real income tax which would be suspended under Plan I.

4. The Province of Quebec

Quebec consists of a number of regional economies of unique diversity.[13] The great commercial entrepôt and financial centre of Montreal, which lives by handling and processing the goods which flow through it, is at once both completely dependent on the national transcontinental economy, and one of its main pillars. Surrounding Montreal is a tributary agricultural, industrial, and resort area integrated, through Montreal, with the national economy. North of the St. Lawrence are a dozen huge modern mass production units, with small tributary areas, depending entirely on world metal and forest product markets. In the Lower St. Lawrence basin and on the northern frontier are several sub-marginal areas existing on a pioneer basis of self-sufficiency. Every phase of the Canadian economy is represented, and virtually every period of Canada's economic history. But bridging the centuries and economic extremes is a remarkable homogeneity of traditions, ideals, and culture, which often obscures the vital differences in economic interests. All these factors are reflected, to some extent, in Quebec's financial history and present financial position.

The economic changes of the twenties, which brought increasing specialization, industrial concentration, and urbanization, proceeded without governmental assistance or interference, and brought prosperity. The depression of the thirties, however, proved the structure a very vulnerable one and made necessary government intervention on a hitherto unknown scale. Defensive action in the form of relief and public welfare, and constructive action in the form of colonization, agricultural aid, highway construction, and development of resources, put a tremendous financial strain on Quebec governments and institutions just at a time when their revenues were dwindling and their whole economic basis was in jeopardy.

The Provincial Government's financial position is only a part of the picture. To an extent unparalleled in other provinces, religious bodies have supported welfare and educational services. Local governments have also carried an exceptionally large proportion of combined provincial-municipal responsibilities, and under depression conditions, have been strained nearly to the breaking point.

The role of religious institutions in Quebec requires special mention for financial reasons, because these bodies have habitually provided educational and welfare services which in other provinces have been for the most part the responsibility of the state. This fact makes comparisons with other provinces particularly difficult, and from some of the submissions made before the Commission it would appear that there are frequent misapprehensions as to the efforts being directed towards educational and welfare services in Quebec. Unfortunately, accurate statistics of the monetary equivalent of the contribution of the Church are not available; for example, most of the personnel are paid only nominal salaries. To allow for this factor the Commission has assumed that the contributions of religious institutions and the fees paid by pupils and other beneficiaries have brought education and welfare expenditures in Quebec to the national average. In view of other direct estimates of this contribution[14] the assumption does not appear unreasonable, although the amount involved is very large. In the absence of any precise statistics this is the only procedure open, since it would be absurd to suggest that the educational and welfare services in Quebec are inferior to those in other provinces to the extent to which the expenditure of public funds in Quebec falls below the per capita expenditure in other provinces.

Quebec is the only province in which the municipal debt substantially exceeds the provincial debt. This is a reflection of the past delegation of materially greater responsibilities to local governments than in other provinces. This delegation has also, of course, been an important factor in explaining the smallness of the per capita debt of the Quebec Provincial Government in relation to other provincial governments. As we have noted (p. ..), it was necessary to give weight to this special factor in our financial proposals, and consequently, in order to establish approximate uniformity of treatment between all provinces, the Commission has recommended that the Dominion assume the larger of either the net debt service of the Provincial Government or 40 per cent of the total net debt service of Provincial and municipal governments. The latter formula would apply only in the case of Quebec, but would in that case be very important, for in addition to relieving the Provincial Government of its total net debt service, Quebec municipalities would save approximately $5 million a year in interest and $2 million a year in sinking fund payments.

Apart from consideration of any adjustment grants, the general principles of the Plan would, if applied to Quebec in 1937, produce the following results:—

[13] Book I, Chap. VII.

[14] See Appendix 5—Esdras Minville, *Labour Legislation and Social Services in the Province of Quebec.*

EFFECT OF GENERAL PROVISIONS OF PLAN I ON QUEBEC

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$ 6,868,000	Taxes transferred to Dominion	$18,662,000
Relief to employables assumed by Dominion	11,454,000	Former subsidies	2,592,000
Savings on tax collection costs	626,000		
	$18,948,000		$21,254,000
Sinking funds	3,155,000	**Improvement** in financial position before considering the need for a National Adjustment Grant	**2,235,000**
Relief works charged to capital account	1,386,000		
	$23,489,000		$23,489,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 7,829,000	Income taxes surrendered	$ 1,694,000
Debt interest transferred	4,975,000	**Gain** to local governments	**12,967,000**
Sinking fund payments transferred	1,857,000		
	$14,661,000		$14,661,000

It remains to consider whether the figures for 1937 are a sound basis on which to calculate the effect of the Plan on the Province and its municipalities, and whether or not Quebec should receive a National Adjustment Grant. It should be noted, to begin with, that as Plan I contemplates a single personal income tax at uniform rates throughout Canada, taxpayers living in Quebec would pay a much heavier income tax than at present (although residents of the Montreal metropolitan area would be relieved of the municipal income tax). The same thing is true of other provinces which have no provincial income tax but the amounts involved are small in comparison with that in Quebec.

In the case of Quebec the taxes which would be transferred under the Commission's recommendation are succession duties and corporation taxes, since no personal income tax is now levied by the Province. Succession duties, which fluctuate greatly, yielded less than $3 million in 1933/34 and more than $11 million (an all-time peak) in 1937/38. The changes in rate account for but a fraction of this variation. The selection of the peak year for the purpose of calculation shows the loss of revenue to Quebec at its maximum and the improvement in the financial position of Quebec as shown in the foregoing table is correspondingly reduced. Corporation taxes are expected to yield $2 million more in 1939/40 than in 1937/38 as a result of an increase in rates. It should be noted, however, that the Commission's mining tax apportionment proposal would give Quebec a substantial, and in all probability a rapidly expanding, revenue from that source. It should further be noted, in weighing the debits and credits of the proposed transfers, that Quebec's net debt service will increase about $2.2 million from 1937 to 1939. The cost of unemployment relief may be expected to vary from year to year, but our economic analysis indicates that it will be more persistent in Quebec than in most other provinces.

The purpose of a National Adjustment Grant in the case of Quebec would not be to improve educational and social services, since we have, for reasons given above, assumed that these are maintained at the Canadian average. The purpose would be to balance the Quebec budget, which is at present running a serious deficit, without forcing the Province to increase the burden of its taxation. This, as a proportion of the income of the people, already exceeds the Canadian average. An effect of the adjustment grant recommended would be to make it possible to maintain developmental expenditures at nearly their present level. The annual National Adjustment Grant which the

Commission recommends is $8 million. This is about the average of the provincial deficits for the last few years, and under Plan I the expenditures of which the Province (as distinct from its municipalities) will be relieved are roughly equivalent to the yield, at present rates, of the taxes which it will relinquish.

Provincial revenues and expenditures have expanded notably in recent years, and 1936-39 is consequently not a completely satisfactory base to illustrate the operation of the Plan. Based on the actual returns for 1938/39, and the estimates for 1939/40, the budget under Plan I would appear in round figures as follows:—

BUDGETARY POSITION OF QUEBEC UNDER PLAN I

(On the basis 1938-39 figures)

Cr.		*Dr.*	
Provincial revenues	$39,800,000	Expenditures	$46,800,000
National Adjustment Grant	8,000,000	**Surplus***	**1,000,000**
	$47,800,000		$47,800,000

* Surplus available for expansion of developmental expenditures and for reduction of taxation.

There is also the saving in relief costs, interest and sinking funds to municipalities—on the 1937 basis of about $13 million. The municipal benefits also provide, to some extent, direct relief to the Provincial Government, since its financial position is affected by the difficulties of the chief municipalities. How the saving on debt service should be apportioned among them is, of course, a matter to be determined by the Provincial Government. But it may be assumed that a large proportion of the saving would accrue to the benefit of Montreal, and it is possible that advantage might be taken of this opportunity for a thorough reorganization of the finances of the metropolitan area.[15]

Statistically the effect of the proposed relief would be to reduce municipal expenditure in Quebec by about 15 per cent. This would convert the present over-all deficits into comfortable surpluses, greatly improve the credit situation, and permit a measure of tax reduction. This reduction is particularly desirable as our calculations indicate that existing provincial and municipal taxation in Quebec is substantially above the Canadian average. Under the present system, on the other hand, taxation would have to be increased still more above the national average to wipe out the chronic deficit. Reduction will give provincial and municipal revenues an elasticity and potential reserve lacking at present.

[15] See Section B, Chap. VIII.

5. The Province of Ontario

Two causes combine to make Ontario the wealthiest province in Canada. Added to the rich agricultural lands and favourable climate of Western Ontario, the timber and mineral resources of Northern Ontario, the manufacturing advantages in her power and transportation facilities and proximity to the industrial heart of the United States, is the strategic and dominating position Ontario occupies in the whole Canadian economy.[16] But just as Ontario's natural advantages, combined with national policies, have made it the industrial and financial centre of the Dominion, and the logical concentration point for the profits and fortunes of the outlying regions, they have linked Ontario's fortunes closely to those of every section of the country, and have made it sensitive and vulnerable to regional disasters and bankruptcies outside its borders. Ontario cannot fail to share in prosperity elsewhere in the Dominion, nor can it remain unaffected by regional impoverishment in any part of the Dominion. But the gains and the losses to the people of the Province do not offset each other as they fall on different groups. Anything which stabilizes conditions in Canada and which makes it possible for other provincial governments to maintain the level of their services even in times of depression will be of great benefit to the people of Ontario and to the financial stability of the Province. The citizens of that Province, who pay nearly half the federal taxes, and who pay twice as much to the Dominion as to the Provincial Government, have a very direct and immediate interest in seeing Dominion and provincial finances put on a rational and business-like basis. They are vitally concerned in maintaining the solvency of other provinces, for the drastic and arbitrary readjustments which would become necessary in the case of widespread insolvency would cause far more harm to them; because of effects on their investments and their markets, than any preventive measures are likely to cost them. The Commission's recommendations which are designed to ensure the solvency and stability of the finances of all provinces are, therefore, of enormous importance to Ontario and to its citizens and must be considered with an eye to the possible alternatives. One of the alternatives—the present system, modified by Dominion assumption of relief for unemployed employables,—will be described in detail in a later chapter as Plan II. In comparison, Plan I will appear as the more attractive way for Ontario to meet the financial risks inherent in its position as the keystone of the Canadian economy. The direct benefits to Ontario governments which the Commission's recommendations would produce are important, but might not in themselves justify such sweeping changes as are proposed. The case for Plan I as it affects Ontario must rest on the much more basic and important benefits which industries, taxpayers, and investors in Ontario will gain from nation-wide improvement.

Under Plan I the financial credits and debits to the provincial and local governments may be summarized as follows, based on the year 1937:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON ONTARIO
(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$18,539,000	Taxes transferred to Dominion	$28,932,000
Relief to employables assumed by Dominion	8,347,000	Former subsidies	2,941,000
Savings on tax collection costs	1,099,000		
	$27,985,000		$31,873,000
Subsidies to municipalities discontinued	2,921,000	**Improvement** in financial position before considering need for a National Adjustment Grant	**5,326,000**
Sinking funds discontinued	1,041,000		
Relief works charged to capital account	5,252,000		
	$37,199,000		$37,199,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 5,209,000	Provincial subsidy	$ 2,921,000
Municipal relief works	100,000	**Gain** to local governments	2,388,000
	$ 5,309,000		$ 5,309,000

[16] See Book I, Chap. VII.

In 1937 the Plan would, therefore, have improved the financial position of the Provincial Government by $5,326,000 and that of the municipalities by $2,388,000. These improvements, of course, in large part result from burdens imposed on the Dominion and therefore ultimately on Dominion taxpayers.

It is naturally very difficult to say whether or not the year 1937 can be considered as a good guide to conditions in later years. But a number of the relevant factors may be examined. The yield of succession duties (one of the taxes to be given up by the Province) was exceptionally high in 1937 when it was at an all-time peak of $20,214,000, exceeding the last ten year average by some $8 million and the estimates for 1939/40 by more than $3 million. Thus the sacrifices to be made by the Ontario Government are to some extent exaggerated by use of the 1937 figures. Moreover, the benefits resulting from Dominion assumption of net interest charges are understated as the Ontario budgetary estimates provide for an increase of $2 million in this item by 1939/40. The mining tax rebate to the Ontario Government is a rapidly growing sum (although, of course, it will at times fluctuate sharply, and will eventually decline), and it is a substantially larger proportion of total mining taxation than the Provincial Government now receives. On the other hand, it is possible that the figures for unemployment relief are higher for 1937 than they will be in future years, and if this optimistic conjecture were realized the benefit to Ontario governments from the application of Plan I might be reduced, might disappear entirely, or might even in prosperous years be converted into a loss. But just as benefits to Ontario would come in the main from the pockets of Dominion taxpayers, and as to nearly half their amount from the pockets of taxpayers resident in Ontario, so any loss which Ontario might appear to sustain in a prosperous year would take the form of a benefit to Dominion taxpayers, nearly half of which would accrue to taxpayers resident in Ontario. In contrast with this optimistic forecast we can consider the year 1933, in which relief expenditures were high and revenues lagged. In that year the application of Plan I would have improved provincial finances in Ontario by $15 million and municipal finances by $4 million. It thus appears that the effect of Plan I, as regards Ontario alone, would be to ensure it against the worst calamities of bad years at the cost of some sacrifice in exceptionally good years. This "compulsory insurance", if we may so designate it, is a low price to pay to safeguard the financial stability of all the Canadian provinces and the autonomy which is closely linked with that stability.

Analysis of the budgetary position of the provincial and municipal governments which would result from the operation of Plan I makes it clear that Ontario does not require a National Adjustment Grant. The per capita expenditures on education and social welfare in that Province are about 10 per cent above the Canadian statistical average. Even after allowance has been made for the higher costs in Ontario than in some other provinces there seems no doubt that the quality of the services is well above that of those provided by most other provinces. This high standard can be maintained under Plan I, as it is now, by taxation which is less burdensome than that which is imposed by other provinces. There is no suggestion that Ontario should not continue to provide these services but there is also clearly no claim for national assistance to maintain these standards.

Municipal governments would lose the provincial subsidy, originally paid in lieu of income tax, of some $3 million, but would be relieved of relief costs which in 1937 were somewhat more than $5 million. The net gain is accordingly small—something less than 2 per cent of municipal budgets. However, the financial position of Ontario municipalities, as a whole, is now outstandingly the strongest in Canada, and the transfer of responsibility for unemployment would remove the one constant threat to the financial security of the industrial centres.

The provincial budget, based on the 1936-39 average, would be approximately as follows under Plan I:—

BUDGETARY POSITION OF ONTARIO UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$57,300,000	Expenditures	$52,600,000
		Surplus*	**4,700,000**
	$57,300,000		$57,300,000

*Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

6. The Province of Manitoba

It is perhaps not generally realized how far Manitoba has moved from the pioneer prairie economy stage. The production of wheat, and the handling of wheat produced in Manitoba and Saskatchewan, together with ancillary industries are still the major activity of the Province. But the period of dynamic expansion and construction which was long associated with the developing wheat industry has definitely passed. The economy has suddenly become static and adjustments have had to be made. Added to the shock of this major reorientation was the sequence of droughts and disastrously low prices which reduced prairie agricultural income from the 1928 peak of $435 million to a 1930-37 average of $80 million. That these blows were not completely overwhelming is evidence not only of the tremendous capacity of the primary industry to absorb punishment, but also of the existence of new elements of strength and diversification and of a more mature and firmly established economy than had been generally realized. Winnipeg, which is the metropolitan centre of Saskatchewan as well as of Manitoba, was hit terrifically hard, but what taxable income did exist in the area was concentrated there, and was garnered by the Government of Manitoba. (In fact, the Manitoba 2 per cent special income tax, paid largely by Winnipeg, was the heaviest income tax on low income groups in North America.)†

Bumper crops in Manitoba and somewhat improved prices in 1937 and 1938 have substantially eased the strain, but the Saskatchewan *débâcle* prevented any real recovery. Winnipeg's position in relation to Saskatchewan, which had proven so advantageous during the period of expansion and prosperity, contained serious elements of liability during the depression. The unemployed naturally gravitated to Winnipeg, and the burden of maintaining the governmental and commercial overhead fell largely on that City. The City's own finances were thus under a double strain, and only the very strong position in which it entered the depression and the healthy financial condition of its utilities enabled it to carry on.[17]

Apart from consideration of a National Adjustment Grant, the general principles of Plan I would, if applied to Manitoba in 1937, produce the following results:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON MANITOBA

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$3,701,000	Taxes transferred to Dominion	$4,731,000
Relief to employables assumed by Dominion	2,584,000	Former subsidies	1,703,000
Savings on tax collection costs	202,000		*750,000
	$6,487,000		$7,184,000
Sinking funds	378,000	**Improvement** in financial position before considering the need for a National Adjustment Grant	**1,000**
Relief works charged to capital account	320,000		
	$7,185,000		$7,185,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$2,050,000		
Municipal relief works	407,000		
	$2,457,000	**Gain** to local governments	**$2,457,000**

* Special grant following Bank of Canada investigation.

[17] For extended account of the City's difficulties see Ex. 19, Brief of City of Winnipeg, Ev. pp. 905-48.

† Reduced to one per cent in 1938.

It remains to examine the general level of educational, welfare, and developmental services, and to determine whether Manitoba requires an adjustment grant. Manitoba's expenditures on these services have been progressively reduced, in relation to the rest of the country, since the twenties; combined provincial and municipal expenditures have fallen from 7 per cent more than the national average in the twenties to 9 per cent below it today.[18] To provide services up to the national average would require approximately $1,100,000 more a year. (In Manitoba, as in the other Western Provinces, the lack of endowed universities throws a somewhat heavier burden on current public expenditures than is the case in Eastern Provinces.) Manitoba has also reduced highway expenditures by some $200,000 (annual average 1936-39) below the 1928-31 average. (Owing to the transfer of natural resources to the Province in 1930 comparisons of developmental expenditures cannot be made.) Consequently, for these purposes, and to meet the deficit which would still remain under the general provisions of Plan I, the Commission recommends an annual National Adjustment Grant of $2,100,000.

To summarize the effect of the Commission's proposals, the financial position of Manitoba's municipalities would be improved by some $2 to 2½ million a year, converting current deficits of about $1¼ million into surpluses of equal amount. The Province of Manitoba would be left with current expenditures on the basis of present budgets of $9 million a year (of which nearly 60 per cent would be on education and welfare, and 20 per cent on highways and development), revenues from local sources of $8 million, and an adjustment grant of $2,100,000. The largest items in the remaining provincial revenues would be gasoline taxes, liquor control profits, and automobile licences; these, and the other remaining taxes, are relatively stable with the notable exception of liquor control profits, which fell $1 million from 1930 to 1933 and have since recovered three-quarters of the loss. Recurrence of such a fluctuation would be serious (although *total* liquor control profits are less than the deficit under the present system, in the 1939 budget estimates) but the recommended transfer of taxes to the Dominion, and their establishment at a uniform level, would materially reduce the income taxes paid by Manitoba citizens, and would presumably provide the Provincial Government with reserves of taxable capacity in case of emergency. The redistribution of taxes recommended by the Commission would transform Manitoba from one of the most heavily taxed areas in the Dominion, as at present, to one with approximate average level of taxation in relation to normal income.

Under the terms of Plan I, and before the new expenditures for which the adjustment grant would provide, the provincial budget would appear as follows (based on the 1936-39 average):—

BUDGETARY POSITION OF MANITOBA UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$ 8,200,000	Expenditures	$ 9,000,000
National Adjustment Grant	2,100,000	**Surplus***	**1,300,000**
	$10,300,000		$10,300,000

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

[18] For condition of education, social services, etc., in the Province, see Ex. 6, Brief of Man. Pt. VI.

7. The Province of Saskatchewan

The people of Saskatchewan have suffered a reduction in income during the last decade which has probably been unparalleled in peace-time in any other civilized country. Net agricultural income averaging some $200 million a year in the late twenties fell to an actual negative amount in 1931 and 1932, and was only about one-tenth of that average in 1937. Total provincial income (after including federal relief payments in the province) fell in the thirties by more than half, and in the worst years by two-thirds of the 1926-29 annual dollar average.[19]

The impact of this blow on government revenues has, of course, been coupled with new demands for government assistance on an unprecedented scale. There not only existed the problem of maintaining, on occasion, more than half the population, but also the problem of supplying the major industry's raw material and operating costs in order to keep it in production. The contingent liability of such a highly specialized economy, dependent for prosperity on a combination of two major uncontrollable factors—crop yields (in a hazardous climate) and world marketing conditions (in a speculative trade)—was brought home with shattering force. Unlike more diversified and self-sufficient economies that could, in a pinch, live in some fashion on their own resources, the operating costs of the industry, the fixed charges of the industry, and the very subsistence of the population had to be met in cash.

There was no possibility of financing the new responsibilities from current local revenues. Fixed charges and cash operating costs had virtually wiped out the net income of the major industry, and no concentrations of past income and wealth remained in the Province in liquid or taxable form. Rural municipal tax collections, for example, fell from $18 million in 1929/30 to $4,300,000 in 1937/38. There was also no possibility of borrowing the necessary money from commercial sources, since the altered outlook for Saskatchewan's main product, the growing scepticism of Saskatchewan's ability to recover its productive power, and the growing burden of debt and agitation for drastic debt reduction measures, shook Saskatchewan's credit. Yet Saskatchewan had been, in many ways, the mainspring of the transcontinental economy, and it was recognized as a national necessity, as well as a national duty, to maintain the industry, people, and organization of the area. Dominion relief on a very large scale and, for a while, Dominion assistance to provincial financing served as a stop gap.

But the experience of Saskatchewan illustrates the weaknesses in the present division of financial and constitutional powers and responsibilities in Canada, and our inability to grapple effectively with any such emergency within the framework of the existing system. It should not be suggested that the Commission's recommendations are based on the abnormal conditions which have prevailed in Saskatchewan—in fact, as noted subsequently, certain special assistance is necessary in the case of Saskatchewan in addition to the general provisions of Plan I. But the position of Saskatchewan does serve as an extreme and vivid example of the vulnerability and impotence of the present system in the face of unfavourable regional developments; of the arbitrary, inefficient, and wasteful extra-constitutional transfers and palliatives which must be resorted to in desperation; and of the crying need for adjustments in the present public financial system to bring it more in line with the modern Canadian economy and world conditions.

Apart from consideration of any adjustment grant, the general principles of Plan I would, if applied to Saskatchewan in 1937, produce the following results:—

[19] See Appendix 4—*National Income.*

EFFECT OF GENERAL PROVISIONS OF PLAN I ON SASKATCHEWAN

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$ 6,083,000	Taxes transferred to the Dominion	$ 1,553,000
Relief to employables assumed by Dominion	9,776,000	Former subsidies	2,120,000
Savings on tax collection costs	72,000		*3,500,000
	$15,931,000		$ 7,173,000
		Improvement in financial position before considering need for a National Adjustment Grant	**8,786,000**
Sinking funds	28,000		
	$15,959,000		$15,959,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 500,000	**Gain** to local governments	**$ 500,000**

* Special grant following Bank of Canada investigation.

The 1937 figures (i.e. fiscal year 1937/38) cannot be taken as normal in Saskatchewan. On the one hand, a very large portion of the relief expenditures[20] is only nominally provincial; as in previous depression years these expenditures were made on provincial account, but were financed by Dominion loans, many of which have already been written off. (The interest on the remainder is capitalized annually.)

On the other hand, Saskatchewan revenues and expenditures in that year reflected the abnormal crop conditions. The Government was running at a huge deficit in spite of the most severe retrenchment of education, welfare, developmental and general government expenditures. Total provincial and municipal expenditures on education, for example, were cut 40 per cent from 1930 to 1937. The average salary for rural teachers (male, First Class) fell from $1,160 in 1930 to $512 in 1936,[21] and in many cases the reduced salary was paid largely in the form of notes which could only be cashed at a heavy discount. The Commission has accordingly attempted to estimate the budgetary position of Saskatchewan under "normal" conditions, and to make special allowance for abnormal crop failure conditions.

The Commission's estimate of Saskatchewan's budgetary position, on the basis of reasonable economic expectations in the near future, shows that Saskatchewan needs a fixed annual adjustment grant (supplementary to the general transfers recommended under Plan I) of $1,750,000 a year. Such a payment, however, combined with the improvement in the Government's fiscal position under the general terms of Plan I, would not provide for maintenance of services at the national average under existing circumstances. Education, welfare, and development expenditures in Saskatchewan have been cut to a level which not only prevents the maintenance of reasonable standards in Saskatchewan but threatens standards throughout Canada.[22] For example, there is lack of hospital-bed accommodation for about one-third of the serious mental cases. Inferior standards of education and public health services have insidious but extremely injurious effects on both the area immediately concerned and the rest of the country. Particularly in time of depression, when personnel affected by disproportionate wage cuts cannot

[20] The cost of relief to be transferred to the Dominion includes, in this case, a certain amount of agricultural relief as well as relief for employables. It was thought more realistic in the case of Saskatchewan to show as transferred to the Dominion that portion of agricultural relief which the Dominion did in fact assume.

[21] Ex. 62, Brief of the Saskatchewan Teachers' Federation.

[22] For account of reduction in services see Ex. 34, Brief of Sask., pp. 273*ff*.

readily shift, and when individuals as well as the community continue running to some extent on accumulated reserves and along traditional lines, standards may be maintained. But over any long period of time the quality of the service adjusts itself to the new economic level. This process makes certain superficial financial savings to the governments and taxpayers concerned, but leads to economic loss and wastage, human suffering, and ultimately, serious impairment of provincial autonomy and national strength.

To meet the special circumstances of Saskatchewan the Commission accordingly recommends, in addition to the National Adjustment Grant, an emergency grant. For purposes of illustration only, the figure suggested for 1937 is $4 million; for 1938 $4 million; and for 1939, on the basis of budget estimates, $2 million. As has been explained, the emergency grant would not be irreducible, but would be subject to annual review, and under normal conditions should disappear entirely.

The improvement in the Government's fiscal position, which would result from the general provisions of Plan I, together with the Adjustment Grant and the emergency grant (a total of $14½ million in 1937) would leave the Provincial Government, on the basis of current expenditures which have been pared to the bone, with a surplus of $2,693,000 in 1937. This is approximately the amount which the Commission estimates to be required to restore Saskatchewan's education, welfare, and development expenditures—not to their former level—to the national average. (The dollar average in the case of Saskatchewan is taken as approximately the real average.) The gain to Saskatchewan municipalities from Dominion assumption of relief for employables is $500,000—obviously an inadequate sum under the special circumstances of 1937. But by putting the Provincial Government in a position to make good the deficiencies in the chief municipal responsibilities—education and welfare expenditures—the Commission believes that provision has been made for alleviating the worst effects of such disastrous years, and for putting municipal finances on a stable basis over an average cycle.

It should be added that the level of provincial and municipal taxation in Saskatchewan, after giving effect to the Commission's proposals, would be above the national average in relation to income during such abnormal depression years as we have been considering, but that it should be at the national average when provincial income rises to figures which would permit discontinuance of the emergency grant.

In a province where government revenues fluctuate only less extremely than the provincial income, the future budgetary position of Saskatchewan under the Commission's proposals cannot be set forth with the same degree of approximation as in other provinces. The emergency grant is designed, of course, to meet the more violent of these fluctuations and introduce a greater degree of flexibility in the operation of the Plan.

Because of this special feature in the case of Saskatchewan, the effect of the implementation of the Commission's recommendations on the provincial budget, before increasing expenditures to bring services up to the national average, may be best illustrated by the individual years from 1936 to 1939, rather than by an average.

BUDGETARY POSITION OF SASKATCHEWAN UNDER PLAN I

	1936	1937	1938	1939
	$000	$000	$000	$000
Provincial Revenues	10,050	9,700	11,150	12,500
National Adjustment Grant	1,750	1,750	1,750	1,750
Emergency Grant	1,500	4,000	4,000	2,000
Total	13,300	15,450	16,900	16,250
Expenditures	11,000	12,800	14,300	13,300
***Surplus**	**2,300**	**2,650**	**2,600**	**2,950**

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

8. The Province of Alberta

Alberta contains both the last important undeveloped agricultural frontier of Canada, and a varied assortment of resources, and these give the Province a broader and more diversified economic base and a more promising outlook than the other Prairie Provinces. Fluctuations in agricultural income have been extreme, although consistently better crop yields have made them less so than in Saskatchewan, and their effect on the total provincial income has been tempered to some extent in recent years by oil, mining, construction, and industrial development. Alberta is still in the stage when, under normal conditions, one would expect large scale capital investment and rapid expansion. These expectations have been defeated in recent years by drought and low prices, and by political factors.

Because of the possibilities which exist to increase income and welfare generally in Alberta if new capital investment is made, it is of common concern to re-establish Alberta's credit and to provide conditions which will inspire investors with confidence.

Whether default was necessary or not at the time it occurred is of less importance at the moment than the fact that it now exists. To escape from the impasse which it has produced requires more than a technical financial operation; it requires recognition of certain basic economic disabilities and of maldistribution of important governmental powers and responsibilities. The losses to investors, the prevention of desirable economic expansion through lack of credit, and the damage done to the credit of other Canadian governments will only be compensated for if the lessons to be drawn from this experience are applied in practical form to prevent its recurrence.

Plan I proposes the assumption of Alberta's debt, including all unpaid interest, on the same terms as for every other province. (It should be noted in passing that had Alberta paid full interest, Dominion advances to Alberta for relief would have been increased by about an equal amount, so that this proposal does not put any greater burden on the Dominion than would have been the case had Alberta paid full interest throughout.)

Apart from consideration of a National Adjustment Grant, the general principles of Plan I would, if applied to Alberta in 1937, produce the following results:—

EFFECT OF GENERAL PROVISIONS OF PLAN I ON ALBERTA

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion (at full interest rate)	$6,959,000	Taxes transferred to the Dominion	$3,739,000
Relief to employables assumed by Dominion	1,540,000	Former subsidies	1,776,000
Savings on tax collection costs	165,000		$5,515,000
	$8,664,000	**Improvement** in financial position assuming full interest paid	**$3,609,000**
Sinking funds	.....	Interest not paid was	3,400,000
Relief works charged to capital account	460,000	**Net Improvement**	**209,000**
	$9,124,000		$9,124,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 995,000		
Municipal share of relief works	97,000		
	$1,092,000	**Gain** to local governments	$1,092,000

It should be noted that in the year 1937 succession duties were $1 million higher than normal, and no provision was made for sinking funds (formerly $700,000 to $750,000). Adjustment for these items would, of course, increase the financial advantage to the Provincial Government shown as resulting from Plan I.

The transfers recommended above leave the provincial and local governments of Alberta in a comfortable financial position. The Provincial Government's clear surplus would be about $2½ million. Municipalities, which had a small surplus in 1937, would have a surplus of $1½ million, or roughly 7½ per cent of their expenditures.

Provincial highway expenditures are now at the approximate 1928-31 average level. Provincial and municipal expenditures on education and public welfare are still, taken together, slightly in excess of the Canadian average, but less so than in pre-depression years. When, in addition to these considerations, account is taken of the large surplus which the general provisions of Plan I would now provide, and the rapid expansion in oil production now taking place (which will be immediately reflected in provincial revenues by the operation of the Commission's mining tax rebate proposal), it is clear that Alberta would not require any adjustment grant. Following the transfers recommended by the Commission, it would be possible to restore Alberta's education and welfare services to pre-depression levels, which were approximately 10 per cent more than the national average, and at the same time substantially reduce taxation, which the Commission's calculations show to be somewhat higher than the national average.

Of greater importance than the immediate monetary gain would be the clearing up of the present credit situation which is both hampering Alberta's economic progress and producing arbitrary and inequitable losses to investors in Alberta securities. The benefits of such a development would not be limited to Alberta alone, but the whole country would gain from the stimulus of renewed expansion and prosperity in Alberta.

Implementation of the Commission's recommendations would produce a provincial budget, based on 1936-39 figures, approximately as follows:—

BUDGETARY POSITION OF ALBERTA UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$13,100,000	Expenditures	$10,900,000
		Surplus*	**2,200,000**
	$13,100,000		$13,100,000

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

9. The Province of British Columbia

British Columbia presents the most striking contrast in Canada of huge barren areas and extraordinarily rich resources. Although greatly affected by Canadian tariff, railway, and other economic policies, it has not been absorbed as a completely integral part of the Canadian economic system. But unlike the Maritimes, which have also been more affected by than made a part of the Canadian economic system, British Columbia has been able, on the strength of its own resources, to establish a high income and standard of living for its people. This income is based on the exploitation of a few specialized products, dependent on external (and in a few cases, Prairie) markets, and hence is highly vulnerable and subject to wide fluctuations.[23] The coincidence of a number of favourable factors in the twenties—the opening of the Panama Canal, low shipping rates, the development of electro-metallurgical technique—stimulated extremely rapid development and a very high rate of capital investment. It cannot be assumed that such a favourable series of circumstances will be repeated, and with no new worlds to conquer the exceptional stimulus from the great capital investment program and rapid frontier expansion of the twenties will be missing. Sufficient virgin resources of higher than average quality still remain to give British Columbia a favourable competitive margin at present, and ability to absorb market and price fluctuations without undue distress. But it is easy to foresee the disappearance of this differential advantage, and even of some of the resources, which will then expose British Columbia to much more severe shocks and adjustments.[24] Even the metropolitan area of Vancouver, and the large wholesale, shipping, and servicing trade which has developed, are dependent to an unusual extent on external and uncontrollable factors. Vancouver's tributary area is largely determined by ocean freight rates, and an increase in those rates to profitable levels will greatly circumscribe the hinterland which finds it profitable to trade through western rather than eastern or southern ports.

There are important public finance implications in an economy with the special strengths and weaknesses of British Columbia. That the strengths are present, and the weaknesses still largely potential, should not be allowed to obscure these implications. Overhead government costs that are easily borne from the surplus of above-average resources and a huge capital investment program, may prove crushing when only average resources remain and new investment tapers off. Services and a standard of living established and financed by treating capital depletion as current income will be subject to extreme pressure when the first phase of exploitation passes. Major economic and social adjustments will be necessary (and will require money and co-ordinated planning) unless large population groups are to be allowed to sink to chronically depressed if not subsistence levels. British Columbia should, for years to come, have a per capita income higher than average, but it will also be a more variable and vulnerable one. It is only reasonable to expect that new and alternative resources will be developed as some of the present ones are exhausted, and there are, in addition, important permanent assets. But in no other province are the problems of depreciation and depletion as important to the provincial economy and public finance.

The Commission's recommendations in Plan I provide insurance against deterioration of governmental services below the national average when British Columbia, having lost its differential advantages in resources and transportation, may encounter serious blows in world markets. Apart from consideration of any adjustment grant, the general principles of Plan I would, if applied to British Columbia in 1937, produce the following results:—

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[23] For extended account of provincial economy see Ex. 172, Brief of B.C., Pt. VI.

[24] The Province contended in evidence before the Commission that its present prosperity was due in part to the exploitation of "wasting or wastable assets", see Brief, pp. 181*ff*.

EFFECT OF GENERAL PROVISIONS OF PLAN I ON BRITISH COLUMBIA

(1937 Base)

Provincial Government

Cr.		*Dr.*	
Net debt service assumed by Dominion	$ 6,540,000	Taxes transferred to Dominion	$ 8,278,000
Relief to employables assumed by Dominion	3,408,000	Former subsidies (including interim grant)	1,625,000
Savings on tax collection costs	415,000		
	$10,363,000		$ 9,903,000
Sinking funds	853,000	**Improvement** in financial position before consideration of need for a National Adjustment Grant	**2,648,000**
Relief works charged to capital account	1,335,000		
	$12,551,000		$12,551,000

Local Governments

Cr.		*Dr.*	
Relief to employables assumed by Dominion	$ 749,000		
Municipal share of relief works	11,000		
	$ 760,000	**Gain** to local governments	$ **760,000**

The net effect of the foregoing transfers is favourable to British Columbia governments. (This is true in spite of the fact that selection of the relatively prosperous year 1937 considerably understates the monetary advantages of the Plan to the Provincial Government. In most other years the Provincial Government would gain—and the Dominion Government would lose— substantially more). The transfers are even more favourable to British Columbia taxpayers, since they would involve the transfer of taxes which are now considerably above the national average to the Dominion Government, and consequently their adjustment to uniform national rates, and would leave taxes (provincial and municipal) which approximated the national average in relation to income. On the basis of 1936, 1937 and 1938 results, and 1939 budget estimates, the Provincial Government would be left with a surplus, as follows:—

BUDGETARY POSITION OF BRITISH COLUMBIA UNDER PLAN I

(On the basis 1936-39 figures)

Cr.		*Dr.*	
Provincial revenues	$20,000,000	Expenditures	$19,100,000
		Surplus*	**900,000**
			$20,000,000

* Surplus available for expansion of education, welfare, and developmental expenditures, directly or through municipal subsidies, and for reduction of taxation.

British Columbia municipalities, although benefiting by some $750,000, would be left with a small cash deficit on the basis of 1937 figures alone, but with a small surplus on the average of recent years.

In reviewing British Columbia's expenditures on education and welfare, however, we note that they are (1936-39 basis) $3,300,000, or 23 per cent more than the Province's expenditures would be at the national average. The Commission believes that there are certain factors which tend to make the unit dollar cost of education and welfare higher than the national average for the same quality of service. But after having made full allowance for these factors, the Commission concludes that British Columbia is providing a higher real standard of service than the average. On the other hand, British Columbia developmental expenditures are some $640,000 annually below the 1928-31 provincial average and this enforced retrenchment has undoubtedly impaired desirable conservation measures.[25] It will be noted that the surplus which the Commission's recommendations would yield the Province would be more than enough to make up this deficiency.

British Columbia evidently does not require a National Adjustment Grant at the present time. Following implementation of the Commission's recommendations it would be possible to maintain the present above average standard of social services, and bring up development and conservation expenditures to pre-depression levels on the basis of provincial taxation which would be slightly lower than the Canadian average. In addition, British Columbia taxpayers would save between $4 and $5 million owing to the fact that present provincial rates are much higher than national rates would have to be on the transferred taxes.

It must be noted, however, that some 10 per cent of British Columbia's remaining revenue will consist of the mining tax rebate based on profits which fluctuate widely; e.g., in the ratio of 1:7 from 1933 to 1937. This is merely indicative of the great relative importance of that volatile industry in British Columbia, and present provincial revenues are even more vulnerable to decline in income from mining. But to an extent unparalleled in any other province, except possibly Ontario, provincial services are now, and would, under the Commission's recommendations, still be to some degree dependent on a highly fluctuating and eventually disappearing source of revenue. Ideally, revenue from wasting assets should be treated as capital, or should at least be used to develop new resources. In view of the uncertainties of British Columbia's future, inherent in its economy, the chief merit of the Commission's recommendations is the assurance of means to maintain at least average Canadian standards in the event of either a sudden blow to the primary exporting industries or the depletion of the best of the natural resources.

[25] Expenditures on forest fire protection were cut from a 1930 peak of $908,000 to $89,000 in 1933, and now (1936-9) average $425,000.

It is obvious that if the tax and expenditure transfers which the Commission recommends improve the financial position of every provincial government (including their municipal governments), on balance, the Dominion Government will lose. It is true that some of the improvement in provincial finances would result from clear savings in the costs of tax collection, and not from increased burdens on the Dominion. (We are here considering only the direct savings to the governments concerned. Of much greater importance would be the savings to business in tax compliance costs, and the elimination of inequitable double and triple taxation on organized business and on individuals.) But even after allowing for all the economies in government expenditures made possible by the Plan, the Dominion Government would lose nearly $40 million a year (on the basis of the 1936-39 average) before making any allowance for amortization of the provincial (and Quebec municipal) debt to be assumed. Prospective savings on debt refunding would be achieved, if present interest rates continue, as high coupon provincial bonds mature. (On the other hand, the Dominion would be accepting the very important contingent liabilities of a rise in interest rates, and of an exchange premium on bonds payable in foreign currencies—liabilities which are much more properly those of the Dominion, because of its control of monetary and foreign exchange policies, than of the provinces.) The Plan also makes possible substantial economies in unemployment relief costs. Dominion responsibility will permit, and in fact will force, an attack on the problem on a national scale, and co-ordination of taxation, borrowing, and monetary policies, industrial and agricultural subsidies and protection, public works programs, vocational training, and labour transfer facilities. In such co-ordination, and by using business-like and effective methods, lie some of the major potential economies. A national attack on the unemployment problem will involve larger direct government expenditures under certain conditions, but will also make it possible to avoid much of the waste which now results from governments working at cross purposes, and from lack of clear delimitation of responsibility. Even more important, national responsibility and a constructive program should remove the pressures on the national income inherent in the present system and stimulate its increase, thus reducing the relative burden and proportionate cost of relief. To these advantages should be added the improved prospects for the unemployed.

To offset the immediate cost of the Plan the Dominion would have exclusive control of three basic modern instruments of taxation, and would be in a position to develop a taxation system which would produce the necessary revenues with much less burden to the economy, and with much greater equity as between individual taxpayers, and groups of taxpayers living in different regions.[26]

The first result of the recommended transfers would be to establish uniform income, corporation and succession duty taxes. In this process, Maritime and Quebec taxpayers would pay more, and Manitoba and British Columbia taxpayers less than at present. Presumably the next step would be to raise sufficient revenue to compensate the Dominion for the losses in the recommended transfers. (It should not be overlooked that the Commission's recommendations make possible balanced budgets in all provinces, and in several after substantial expansion of services. The results to taxpayers can only be compared with what the situation would be if provincial governments now raised their taxes in order to pay for similarly increased services and to balance their budgets. Apart from the impossibility of this in some cases, and the inequities which it would produce, it would cost Canadian taxpayers a substantially larger sum in the aggregate than would equivalent services provided in accordance with Plan I.) The most desirable method of raising the additional revenue would depend on the economic circumstances and poltical policies of the time, but our financial analysis[27] would suggest that a broadening of the income tax basis, and substantial increases in the lower and medium brackets would be the most efficient and economic method. Comparisons with other countries would also suggest that succession duties could contribute a larger proportion of total returns than they do at present.

The substantial increase in the Dominion deficit which the Commission's recommendations would produce is not alarming in view of the greatly improved position in which the Dominion would be put to carry out a comprehensive fiscal and monetary policy in periods of both prosperity and depression, and in view of the relief to business and the economy in general which a coherent, rationally designed taxation system would afford.

Implementation of the Commission's recommendations would throw all the extreme fluctuations of Canadian public finance on the Dominion

[26] Note, however, certain restrictions on the Dominion's tax policies which are implicit in Plan I, discussed on p. 85.

[27] See Book I, Chap. VIII

This is essential if fiscal, monetary, and economic policies are to be co-ordinated with a view to reducing Canadian overhead costs and to minimizing and helping control the swings of the business cycle. While provincial and local governments would be left with relatively stable revenues and expenditures and, through the operation of National Adjustment Grants, would be assured of independent financial security and ability to provide average services, residual deficits and surpluses would concern the Dominion. While other governments would be put in a position to budget closely from year to year, the Dominion would have to budget for the business cycle rather than for any specific fiscal period. This would lead to integration of fiscal policy with monetary and economic policies in a manner which could be made highly beneficial to the general welfare.

A most important element in this integration would be the concentration of deficit financing and special public works programs in periods of depression, and of debt retirement in periods of prosperity, in the hands of one body, the Parliament of Canada. This would permit carrying out a coherent long-range policy, that would be related to national monetary, tariff, industrial, transportation, and developmental policies. For this reason the Commission does not recommend any specific sinking fund provisions on the debt to be assumed by the Dominion, nor on its present debt, since the Commission believes that debt retirement (or debt increase) should be adapted to the business cycle and related national policies.

In order to present the complete picture of the results to be expected from the operation of Plan I, we should show, in addition to the benefits received by provincial and local governments (which will be reflected either in reduced taxation or increased services for provincial residents) the increased burden on Dominion taxpayers. It is misleading to put the latter on a provincial basis, since it is not the provinces, or the provincial governments, as such, that would pay, but Canadian citizens throughout Canada, on a uniform basis and in accordance with their means. As noted in the chapter on taxation, the taxes recommended to be left exclusively to the Dominion apply in large part to income and wealth which is national in character, in substantial measure the product of national policies, and which cannot be identified with purely local effort or local needs. Nevertheless, under the present system, the bulk of this income and wealth is concentrated in a few localities. Consequently, a few provincial governments are in very favourable positions in respect to reserves of taxation, and others in very inferior positions. It is true that to the extent to which the Commission's recommendations will remove these inequities they might be looked on as indirectly taking something from the provincial governments which are now in the more favoured positions. But, as we have pointed out elsewhere, continuation of the present system will cost the citizens of the wealthier provinces more than the tax recommendations of the Commission, and there can be no ground for complaint, or suggestion of unfair discrimination and inequity, in a system which taxes all citizens of Canada, regardless of the province in which they live, on a uniform basis, in order to provide funds required for a national objective. Enabling provincial governments adequately to perform their functions is a national objective. In fact, it is only by the use of national taxation that a province in need, perhaps in part as a result of the operation of national policies, can be helped. National economic policies, adopted in the general interest, inevitably operate to impoverish some areas and enrich others. The only equitable corollary of this is national taxation which treats residents of all provinces equally, and thus provides for some redistribution of surplus income among provincial governments to enable them to perform their functions without imposing excessive taxation on their citizens.

However, the amount which the residents of each province would have to pay in increased Dominion taxation in order to finance the Plan cannot be estimated with any useful degree of accuracy. The figure of $40 million given as the net cost of the Plan to the Dominion Government was arrived at by assuming that all unemployed employables were cared for by direct relief at existing scales. If this estimate is taken as a starting point, it would then be necessary to select the Dominion taxes which would be increased, to forecast the form of the new rate structures, and to estimate the final incidence of the taxes. As the Commission has found it necessary to note in several instances, the province in which a tax is paid is not necessarily the province in which the income taxed is earned. Consequently it must be emphasized that calculations by any formula of the amount of national taxes paid by residents of any one province cannot be accurate, and may be highly misleading. Efforts to make such calculations ignore the truly national character of many of the taxes considered; the uneven distribution, in part as a result of national policies, of taxable income; the possible stimulus to the national income of an improved taxation system;—in fact, the very factors on which the Commission's taxation recommendations are based.

But the cost to the residents of each province under the present division of powers and responsibilities to make up provincial deficits and produce the surpluses available for improved services as provided in Plan I can be shown, and this is of interest as a commentary on the inequities and impracticabilities inherent in the present system.

ADDITIONAL TAXATION PER FAMILY NECESSARY UNDER THE PRESENT SYSTEM TO PUT PROVINCIAL AND MUNICIPAL BUDGETS IN THE SAME POSITION AS PROVIDED BY PLAN I*, YEAR 1937

—	$	Average Family Income $
Prince Edward Island	11·12	774
Nova Scotia	7·08	1,159
New Brunswick	20·25	1,029
Quebec	27·58	1,344
Ontario	3·25	1,504
Manitoba	20·36	1,408
Saskatchewan	63·92	830
Alberta—at current interest rate	4·46	1,222
—assuming full interest paid	20·20	
British Columbia	7·22	1,317

* For the purposes of this calculation provincial sinking funds have been excluded (i.e., taxation would have to be increased more than shown here to make provision for even current sinking funds), and 40 per cent of the cost of relief works charged to capital account is included.

The Commission does not wish to give the impression that it views lightly the heavy additional burdens on the Dominion Government and the substantial increase in the Dominion deficit which its recommendations would involve in even the most favourable circumstances. The Dominion must also be prepared to meet emergency demands of unpredictable magnitude. But whether to provide more efficient and economical government for Canadians under normal conditions, or to prepare for the special stresses and strains of emergency conditions, the Commission is convinced that the Dominion's first interest lies in seeing Dominion-provincial relations established on a sound and equitable basis. The immediate cost to the Dominion Government of this will be repaid many times in the economies and greater efficiency of government, the security to investors and to recipients of provincial services, the provision of means to supply basic national standards of education and welfare services and to maintain desirable developmental programs, and the stimulus to the national income made possible by its recommendations.

Chapter III

TAX TRANSFER RECOMMENDATIONS

1. Personal Income Taxes

The personal income tax is the most highly developed modern instrument of taxation. It can be more delicately adjusted to individual circumstances, and thus made fairer in its incidence, than any other tax. It adjusts itself automatically to economic fluctuations. It can raise a given revenue with less burden on the national economy than any other tax because it is drawn from surplus income rather than made a burden on costs. That is, no income tax need be exacted from an individual unless he has an income above that necessary for subsistence. No obstacle is thus put in the way of employment at wages or salaries not exceeding the subsistence level, and it is probably in these marginal fields of employment that the major solution of our unemployment problem lies. The income tax is collected directly and relatively cheaply, with no hidden costs and waste. And it has become an integral part of modern economic, political and social policy. It is the most effective method yet devised, within the framework of the capitalist economy, for achieving the social and humanitarian objectives of our civilization; for applying wealth which is made possible only by organized society for the benefit of society as a whole; for preserving the freedom of individual initiative and at the same time making possible the financing of those services which can be most economically provided by the community as a whole.

Nevertheless, as our review of the Canadian taxation system[1] shows, the income tax (made up as it is in many provinces of a Dominion tax plus a provincial tax) has failed to fill a role in Canada commensurate with its possibilities. It is crippled and seriously distorted by the present division of jurisdiction. It cannot, under the existing system, be developed in the most equitable and efficient manner. We have shown some of the results of the present division of jurisdiction, and the inevitable friction and injustices which have arisen in the competitive scramble for revenues.[2] Rates vary between provinces, and in some cases between municipalities, to an extent that is startling in the medium and upper brackets of income, and that creates serious inequities, and practical obstacles to freedom of movement.

Dominion, Provincial and Municipal Income Taxes Payable by a Married Man with No Children*

(Prior to 20 per cent increase in Dominion rates in September 12, 1939, budget, and to War Budget increases in the United Kingdom and France.)

Gross Income	$3,000	$10,000	$100,000
Tax payable by resident of:—			
Charlottetown, P.E.I.	61 90	821 20	38,249 15
Halifax, N.S.	30 00	546 00	32,518 50
Saint John, N.B.	30 00	636 00	35,283 50
Quebec, Quebec	30 00	546 00	32,518 50
Montreal, Quebec	33 00	655 20	39,022 20
Toronto, Ontario	44 55	778 70	39,920 54
Winnipeg, Manitoba	77 04	993 28	46,864 62
Regina, Saskatchewan	71 50	1,034 25	58,230 90
Edmonton, Alberta	65 00	1,036 00	58,228 50
Victoria, B.C.†	60 00	1,051 00	55,513 50
New York, U.S.A.	28 00	655 00	38,274 00
London, England	283 13	1,910 63	50,120 00
Paris, France	579 00	3,564 00	54,239 00

* Assuming all earned income in $3.000 and $10,000 brackets, and $14.000 earned income in $100,000 bracket.

† No allowance made for exemption allowed by B.C. on dividend income from B.C. corporations.

We have noted the integrated and complementary nature of our economy, moulded by national policies and operating as a national unit; the consequent unequal regional distribution of income, and particularly of taxable surplus income, in Canada; the sharp and largely uncontrollable fluctuations in regional incomes; the great inequity as between provinces in the revenues available for provincial services; the impossibility at times for some provinces of providing services of average Canadian standards; and finally, the difficulty for some provinces, because of their limited control over mere sectors of the national economy in assuring either citizens or investors of the future of the province.

The unsuitability of provincial (and municipal) jurisdiction in the income tax field is only partly due to the obstacles which it creates to the development of a business-like and efficient tax structure for the country as a whole. The income tax,

[1] See Book I, Chap. VIII.

[2] The situation is very similar to, but on a much larger scale than that prevailing in Ontario before the abolition of the municipal income tax, which was characterized by the Provincial Premier and Treasurer, in his budget speech of March 9, 1937, as a "disgraceful checkerboard system—full of inequalities, anomalies, hardships".

because of the nature of the Canadian economy, is productive only in some units. Those provinces in which a provincial income tax is, or would be, relatively unproductive feel aggrieved because they think that income earned within their jurisdiction is, through the operation of national policies, concentrated in more fortunate provinces where it may be taxed for provincial purposes.

Changes in tax rates, exemptions, and other regulations by a provincial government affect Dominion revenues, and vice versa, in quite arbitrary and uncontrollable ways, and variations between the schedules and regulations of different governments taxing the same individual give rise to a sense of grievance. We should note in addition the extent to which the present divided jurisdiction, coupled with the inability of the Dominion to compel the provinces to comply with treaties on subjects within provincial jurisdiction*, weaken Canada's ability to enter into effective international agreements respecting income taxes, which have recently become of importance. One result of this may be inability of the Dominion to secure fair treatment for Canadians investing abroad, and another may be the discouragement of investment in Canada by foreigners.

The Commission thinks it desirable that the income tax should be used in accordance with modern practice, as the equalizer and chief instrument of adjustment in the whole tax system. This is particularly necessary in view of the existing tax burdens on business costs, marginal industry, and low-income groups. The rate and the appropriate curve of progressivity necessary to reform and control the tax structure can only be achieved if this equalizing instrument of taxation is under one authority. That authority can only be the Dominion.

The Commission attaches far greater importance, of course, to the beneficial effect on the national income which would result from reform of the tax system than to certain economies which would result from unified collection, but additional advantages of unified control would be reduction in the cost of tax collection and greater efficiency in collection.

The growth of demand for contributory social services, usually proposed to be financed in part by wage taxes which can be regarded as a particular form of income tax, makes it increasingly important to have unified collection. If Dominion unemployment insurance and relief, or provincial welfare services, in co-operation with the Dominion, should be put on a contributory basis, it is essential that the premiums be co-ordinated with the general income tax and the whole tax system. If provincial levies of this character are made there should be an arrangement for collection jointly with corresponding Dominion levies.

The Commission accordingly recommends that the provinces and *ipso facto* their municipalities should withdraw entirely from the personal income tax field, (though retaining the right to levy premiums for social insurance within their competence by way of a proportionate tax on wages and salaries if they choose to do so). This step is an essential part of its general financial plan. But it is also justifiable on the grounds of equity as between taxpayers and as between provinces, and on the grounds of sound fiscal and social policy.

* See Lord Atkin's judgment in *Attorney-General of Canada v. Attorney-General of Ontario et al* [1937], A.C. 316.

2. Corporation Taxes

We have given an account in Book I of the rise of corporation taxation, and of the existing situation.[3] The present complexity is beyond belief. The most important item is the corporation income tax, levied by the Dominion and most provincial governments. There are, in addition, taxes levied by one or more governments, on various bases such as capital stock, number of business places, gross revenue, physical volume of output, period of operation, mileage of track or wire, mileage operated, note circulation, insurance premiums, investments, volume of deposits. These taxes apply on different terms to banks, chain stores, electric power companies, finance companies, gas companies, grain companies, insurance companies, investment companies, land companies, loan companies, mining companies, oil companies, pipe line companies, race tracks, railway companies, sleeping car companies, steamship companies, telegraph companies, telephone companies, tramway companies, trust companies, fire insurance companies, accident and guarantee companies, and "miscellaneous" companies. They have grown up in a completely unplanned and unco-ordinated way, and violate every canon of sound taxation.

Complaints by business organizations about the inequities resulting from the present chaos in corporation taxes and the unnecessary cost of tax compliance were made to the Commission from end to end of the Dominion.[4] In general we find these complaints to be well-founded.

The primary criticism of the present system is that business has been made an object of taxation in itself. It is one thing to use the corporate organization as an agent to collect taxes cheaply and simply from final recipients of wages, interest and dividends,[5] but in Canada business itself is taxed. Some $20 million of total Dominion and provincial corporation taxes comes from specific taxes which bear no relation to net profits, and have naturally become fixed charges, embodied in the overhead. As such they increase the costs of production of all Canadian business, impair its competitive power, and crush out marginal enterprises. The remainder of the revenue from corporation taxation (being virtually all the Dominion revenue and about 40 per cent of the provincial) is derived from corporate income taxes which are not real income taxes. They apply to *corporate* net income at a flat rate, but are not adjusted to the net income of the corporation *owners* at either a uniform or graduated rate. And although they are not a fixed charge on business in the same way that the specific corporation taxes are, they penalize investment in industry (particularly during a period of successive rate increases) as compared with other forms of investment, or hoarding.

It is, of course, impossible to calculate the amount by which diversion of investment, increased business costs and elimination of marginal enterprises reduce the national income, increase unemployment and weaken Canada's competitive power in international trade. But these consequences are regrettable since every penny now raised by direct taxation on business could be raised without any of these disadvantages by properly adjusted taxation on business owners.

The second major criticism of the present system is the inevitable inequity, lack of uniformity, and lack of efficiency arising from the divided jurisdiction. Corporate business has naturally adapted itself to the national policies and local concentrations of power and income which we have noted as so characteristic of the Canadian economy. Several provinces have consequently been led to devise elaborate formulae, differing in almost every province and in relation to every business, which can be applied to whatever assets fall within their jurisdictions, or which, in more extreme cases, will extract as much as the corporation can pay before it is clearly advantageous for it to sacrifice its investment and withdraw completely from the province. But in many cases once the initial investment has been made the corporation cannot withdraw. As a result, investments in different forms of business are taxed at different rates in the same province; investments in the same kind of business are taxed at different rates in different provinces; investments in business operating on a national scale are double- and triple-taxed with no relation to earning power; certain forms of business can be, and are, singled out for discriminatory taxation; tax compliance costs are uselessly and unreasonably increased. And again, it should be added, the same amount of revenue could be secured without imposing any of these discriminatory and inequitable burdens.

[3] Book I, Chap. II and Chap. VIII.

[4] Ex. 88, Brief of Canadian Manufacturers' Ass'n; Ex. 267, Brief of Citizens' Research Institute; Ex. 394, Brief of Canadian Chamber of Commerce; Ex. 188, Brief of Associated Boards of Trade of B.C.; Ex. 202, Brief of Victoria Chamber of Commerce; Ex. 268, Brief of Toronto Board of Trade; Ex. 343, Brief of Chambre de Commerce de Montréal; Ex. 107, Brief of Chartered Banks of Canada; Ex. 113, Brief of Canadian Federation of Mayors and Municipalities; Ex. 92, Brief of Canadian Life Insurance Officers' Ass'n. For discussion of cost of tax compliance see this section Chap. VIII.

[5] Prior to 1926, dividends of corporations subject to Dominion taxation were exempted in the hands of shareholders from the normal tax, though not from the supertax or surtax. In consequence of this exemption the corporation tax would be regarded, at least in part, as a normal income tax collected at the source, although unlike Great Britain the Dominion allowed no rebate to shareholders whose income was too small to be subject to any income tax, or to one at less than the corporate rate.

The genesis and explanation of this system lie in the division of jurisdiction in the field, the efforts of provinces to tax objects which are in no economic sense provincial, and in the somewhat indirect and concealed nature of the tax and consequent lack of organized protest. When the taxes were merely nominal no particular hardship was caused, and the ease and cheapness of direct collection from corporations over-rode consideration of minor inequities. But there has been a steady upward tendency in rates which has increased alarmingly in recent years. Current corporation tax revenues (both Dominion and provincial) are double those in 1929.[7]

The Commission accordingly recommends the complete withdrawal of provinces from the corporation tax field as defined below. Only by such a step can we hope to achieve reasonable uniformity in impositions on business. The growing tendency to victimize exposed businesses would be checked. The costs, and annoyances, of multi-tax compliance would be reduced. The Dominion would presumably, in most cases, replace these taxes by increases in the corporation income tax, but ultimately it would be in a position to reform the general tax system, and to shift government burdens from business costs, which would encourage development of our marginal resources and employment of our surplus labour.

It is not necessary to support this recommendation at length. The existing medley is the product of the present division of jurisdiction; of accident and of occasional pressure; of failure to realize the economic results, and of lack of definite responsibility for them; and is so grossly inequitable to, and such a heavy burden on, Canadian industry and development, Canadian investors, and Canadian labour, that a fundamental and sweeping reform is necessary.

A detailed list of the taxes currently affected is given in the Annex below, and these are the taxes included in the transfers recommended in Plan I. It should be made clear that this recommendation does not apply to all taxes paid by corporations, as it does not include bona fide provincial and municipal licence fees, real estate taxes, and consumption taxes collected through corporations.

Coupled with this recommendation is the proposal that a portion of the collections from mining and oil-producing companies should be turned over to the provinces. The Commission recommends that the rebate be an amount equal to 10 per cent of company profits derived from mining and oil production in the province, and that this be paid to the government of the province concerned. Only approximate estimates can now be made of the amounts involved, but appropriately designed tax-return forms would produce the necessary information in the future without difficulty. In the meantime, it is believed that the Commission's estimates may be taken as sufficiently accurate for working purposes.

It is also recommended that profits from smelting and refining operations (provided that the ores used are provincial products) should be treated as mining profits both to facilitate the technical problem of allocating earnings in the case of joint enterprises, and because smelting and refining business based on domestic ores and oils will in the great majority of cases terminate with the exhaustion of the local mine or oil well. In other words, all mining and oil producing company profits will be included *except* investment portfolio earnings, profits from mining, smelting or refining other than native products of the province, and earnings from any fabrication or further processing beyond the refined product. (In the case of an enterprise such as the Hudson Bay Mining and Smelting Company, operating on the Manitoba-Saskatchewan border, it will be necessary for the company to allocate its profits, very much as it does today for provincial tax purposes.)

This proposal recognizes the justice of the provincial claim to direct participation in the profits arising from the exploitation of their wasting assets,[8] and will supply revenues both to amortize provincial expenditures on development and to prepare for the expenditures necessary when the resources are depleted. On the other hand, it should be recognized that, although the resources belong to the provinces, their profitable development depends to a large extent on Dominion tariff, trade and monetary policies, and on Dominion expenditures on transportation and development, and that the Dominion is also entitled to a direct share of these resource revenues in order to amortize its own expenditures on developing them.

The mining tax rebate is recommended because the profits of these companies are made from the depletion of natural resources within the province. No similar proposal is made in the case of other natural resources such as forests, water-powers, agricultural land, and fisheries, because adequate

[7] Since this was written the Dominion corporation income tax has been increased 20 per cent, and a new form of corporation taxation—the excess profits tax—has been added for purposes of war financing.

[8] *E.g.*, Ontario contended that the Dominion income tax should not tax profits from mining operations. (Brief Pt. II, pp. 52-55, see also Ev. pp. 7584*ff.*) British Columbia contended that much of its revenue was derived from the depletion of natural resources and that the Dominion should make allowance in its income tax policy. (Brief pp. 181*ff*; Ev. pp. 5079*ff.*)

conservation measures can, in the great majority of cases, maintain the resources unimpaired.

It is quite true that it would appear that adequate conservation policies are not, in fact, now being generally followed. This, however, is entirely a matter of provincial policy, and under the general arrangement proposed in the Commission's fiscal plan all provincial governments are assured of sufficient revenues to carry out any reasonable and desirable conservation program. Public interest in conservation is evidently increasing in Canada, and if adequate funds are made available considerable expansion in this work may be expected.

It is also true that certain specialized forms of natural resources, other than mineral deposits, are subject to exhaustion in the sense that conservation or replacement would be uneconomic. For example, the white pine of the Ottawa valley and New Brunswick, the black walnut of southwestern Ontario, the black spruce of the lower St. Lawrence, the Douglas fir of British Columbia, many forms of wild life and some agricultural prairie lands have been, or are being, exhausted, and their replacement is not practical. Nevertheless, resources of this nature can be evaluated with a far greater degree of accuracy than hidden mineral resources, and they presumably possess certain scarcity or monopoly values which enable provincial governments to apply appropriate royalties, stumpage dues, and licences under their public domain revenue powers to compensate for the depletion of assets.

Annex

The Commission's proposal is that the provinces should withdraw from all corporation taxes except bona fide licence taxes, taxes on real estate, and consumption taxes applicable to corporations and other consumers. It is not proposed that corporations should be exempted from those taxes which would fall on their business if it were conducted by an individual, but a tax imposed on a type of business in which only corporations engage may well be in substance a tax on corporations. The essence of the Commission's recommendation is that a corporation should be taxed by a province (and its municipalities) in respect of its business only in the same way that an individual or partnership would be taxed. The Commission's recommendation applies in addition to analogous taxes which, by one device or another, in substance tax business entities more than an equitable estimate of provincial or municipal services rendered. The following list of provincial corporation taxes now in existence is illustrative, but not intended to be exhaustive, of the corporation taxes to be given up.

Provincial Corporation Taxes

(Applying in one or more provinces—see Book III, for details of individual provincial corporation taxes.)

1. Accident and Guarantee Companies.
   - (*a*) Flat rate.
2. Banks.
   - (*a*) Capital stock
   - (*b*) Number of branches
   - (*c*) Average monthly volume of business
   - (*d*) Excess of average monthly deposits over the sum of average loans and the increase in investments in provincial and municipal securities during the year
   - (*e*) Net income
   - (*f*) Reserve fund and undivided profits
   - (*g*) Private bankers
   - (*h*) Average amount loans and deposits.
3. Building Companies.
   - (*a*) Flat rate—not over $500.
4. Chain stores.
   - (*a*) Capital stock
   - (*b*) Places of business
   - (*c*) Net income.
5. Electric Power Companies.
   - (*a*) Capital stock
   - (*b*) Places of business and population
   - (*c*) Power lines and plants (Electric Power Taxation Act—Alberta)
   - (*d*) Gross revenue
   - (*e*) Net income
   - (*f*) Electric meters in use.
6. Express Companies.
   - (*a*) Capital stock
   - (*b*) Places of business
   - (*c*) Mileage operated
   - (*d*) Gross revenue
   - (*e*) Net income
   - (*f*) Surcharge.
7. Extra-Provincial Companies.*
   - (*a*) Retail sales in province
   - (*b*) Capital invested or used in province
   - (*c*) Gross income from construction contracts
   - (*d*) Authorized capital and capital stock
   - (*e*) Net income tax
   - (*f*) Surcharge of $50.
8. Finance Companies.
   - (*a*) Capital stock
   - (*b*) Places of business
   - (*c*) Gross revenue
   - (*d*) Flat rate
   - (*e*) Net income.
9. Fire Insurance Companies.
   - (*a*) Gross premiums
   - (*b*) Flat rate
   - (*c*) Net premiums.
10. Gas Companies.
    - (*a*) Capital stock
    - (*b*) Places of business and population
    - (*c*) Gas consumed

* New Brunswick did not have a general corporation tax until 1938 except on Extra-Provincial Companies.

(*d*) Gross revenue
(*e*) Net income
(*f*) Gas meters in use.

11. Grain Companies.
    (*a*) Capital stock
    (*b*) Elevators
    (*c*) Net income
    (*d*) Surcharge.
12. Insurance Companies.
    (*a*) Gross insurance premiums
    (*b*) Net insurance premiums
    (*c*) Places of business
    (*d*) Investments (extra-provincial companies)
    (*e*) Net income
    (*f*) Flat rate on head office in or outside province (life only)
    (*g*) Capital stock
    (*h*) Surcharge.
13. Investment Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Gross revenue
    (*d*) Net income.
14. Land Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Gross revenue
    (*d*) Net income
    (*e*) Investments and capital
    (*f*) Investment within the province.
15. Liquor Export Companies.
    (*a*) Flat rate—$15,000 per annum.
16. Loan Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Investments and deposits
    (*d*) Gross revenue
    (*e*) Net income
    (*f*) Fixed rate
    (*g*) Investment within the province.
17. Mining Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Profits
    (*d*) Net income (metal mining companies)
    (*e*) Alternative 2 per cent mineral tax—assessed value of ore removed from mine (metal mining companies only)
    (*f*) Coal mines and coke ovens, output tax on tonnage.
18. Oil Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Net income
    (*d*) Number and size of tanks
    (*e*) Pipe Line Taxation Act—based on the assessed valuation of the pipe line.
19. Pipe Line Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Net income.
20. Race Track Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Number of days track open
    (*d*) Net income.
21. Railway Companies.
    (*a*) Capital stock
    (*b*) Mileage operated
    (*c*) Net income
    (*d*) Places of business
    (*e*) "The Railway Taxation Act"—gross earnings
    (*f*) Agreement
    (*g*) Surcharge
    (*h*) Flat rate
    (*i*) Payment in lieu of taxes—C.N.R.
22. Sleeping Car Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Net income
    (*d*) Investment in cars for use in Canada
    (*e*) Annual fixed charge not exceeding $300.
23. Steamship Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Net income
    (*d*) Flat rate.
24. Telegraph Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Gross revenue
    (*d*) Net income
    (*e*) Amount invested in lines and property
    (*f*) Number of miles of wire used
    (*g*) Flate rate
    (*h*) Surcharge.
25. Telephone Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Gross revenue
    (*d*) Net income
    (*e*) Telephone instruments in use
    (*f*) Long Distance Tolls.
26. Tramways Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Mileage operated
    (*d*) Gross revenue
    (*e*) Net income.
27. Trust Companies.
    (*a*) Capital stock
    (*b*) Places of business
    (*c*) Gross revenue
    (*d*) Gross earnings on investments for others
    (*e*) Net income
    (*f*) Fixed rate
    (*g*) Gross profits.
28. Miscellaneous Companies.†
    (*a*) Capital stock, value of shares or capital employed
    (*b*) Places of business
    (*c*) Net income
    (*d*) Annual returns and registration fees based on authorized capital
    (*e*) Other taxes—Gasoline dealers
    (*f*) Surcharge.
29. Surcharge on Corporation Taxes.
    (*a*) Interest.

† Includes all companies not specially taxed.

3. Inheritance Taxes

In 1867 there were few large fortunes in Canada, and such concentrations of wealth as did exist were largely local in origin and in the form of local property—land, merchandise, ships, small saw-mills, flour mills, etc. The joint stock company with its attendant characteristics of large scale enterprise, widespread ramifications, and narrow concentration of wealth in security form, was as yet little developed. The coming of the railway greatly altered this situation, both directly and indirectly. To carry out projects, so tremendous in relation to the times, involved pledging the credit of the whole country, but the profits and control were concentrated in a few hands in a few localities. As better transportation facilities made possible specialization and industrialization (and a huge increase in production and wealth), big fortunes, which were in large part based on and made possible by the new national economy, grew and became increasingly concentrated in a few growing metropolitan areas. The evolution of this process and its important implications to succession duty taxation have been noted in various places in Book I.

The provinces first entered the field of succession duty taxes during a period when they were more hard pressed financially than the Dominion, and up to the present the Dominion has left the field entirely to them, though there can be no question of the Dominion's legal power to levy such taxes at whatever rates or by whatever methods it pleases. The rates at first were low, the yields small, and the disparities consequently unimportant. But in recent years the first crop of Canadian millionaires has ripened for harvesting; rates have been substantially increased; and in the scramble for revenues—from wealth which can no longer be considered as local in origin—inequities of double taxation, impediments to free movement of capital, excessive administration, litigation and tax compliance costs, and a strikingly disproportionate division of revenues have come into existence.

Inheritance taxes take two principal forms—a tax levied on the whole corpus of the estate, which is usually called an estate tax, and a tax levied on the shares passing to beneficiaries, which is usually called a succession or legacy duty. The constitutional limitation of the provincial taxing power to "direct taxation within the province" has produced a series of complicated legal decisions as to the validity of provincial succession duty statutes. It is unnecessary to discuss the details of these cases except to note that, in conformity with the decisions, each province in Canada now imposes death taxes on all property situate within the province and also on all transmissions within the province of personal property situate outside it.

This legal situation has led to great unfairness and inequality in the amount of tax exacted from estates of the same size and bequeathed to beneficiaries bearing the same degree of relationship to the decedent. One estate having assets only in the province in which the decedent was domiciled and passing to beneficiaries within that province will be taxed only once; another estate of the same value having assets in several provinces will be taxed by each province on the assets locally situate within it, and will be taxed a second time on the transmission of the property to the beneficiaries in the province in which they reside. It is plainly inequitable that two similar estates within the same province should be taxed substantially different amounts because assets of the same value are held in different forms. Whatever may be said of the taxing of real property and of tangible personal property, on the basis of situs, the application of rules ascribing an artificial situs to intangible personal property appears to produce results which are quite indefensible. Thus, company shares are taxed by the province in which the transfer office of the company is situated on the basis that such shares have a situs at the place where they may be effectively dealt with. Again, moneys payable under insurance policies are taxed in the province in which they are payable, and this place of payment may be determined by the place in which the application for insurance was made many years earlier.[10]

Administrative regulations also frequently give rise to vexatious delays and other abuses. Most provincial succession duty statutes impose duties of disclosure on executors and administrators, and forbid insurance companies to make payments, and other companies to allow transfers of shares until releases have been obtained from the provincial authorities; and heavy penalties are imposed for breach of these provisions. In the result, executors are frequently obliged to engage in litigation to establish that the estate is not subject to taxation or else (as the price of being allowed to realize

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[10] *E.g.*, a person who, twenty years ago was temporarily resident in Quebec may have applied for an insurance policy. Under the terms of the Quebec Insurance Act, Sec. 213, the policy was made subject to the Quebec statute and was payable within the Province. Even though the insured person moved to British Columbia, and maintained his domicile there for twenty years until his death, unless he had taken steps to amend his policy, the moneys payable under his policy would be subject to Quebec succession duties on the theory that the debt is payable and, therefore, physically situate within Quebec.

the assets of the estate) make payment of a tax which they believe is not legally due. It was said that such cases arise most commonly in estates of moderate size where, if the property subjected to double taxation comprises a substantial portion of the estate, serious hardship may result.[11]

The Commission heard many complaints from business organizations about the inequities and vexations of the present situation.[12] Several of the provinces also criticized the present situation, though largely on the ground of inequality of the yield as between provinces.[13]

Logically the difficulties of double taxation could be minimized by an adequate system of reciprocal agreements between the provinces, but the history of such agreements does not suggest that this remedy, even if possible, is likely to be permanent. Over a number of years reciprocal agreements to avoid double taxation were made between most, if not all, provinces in Canada; they were repudiated within a very short time.[14] So long as such agreements can be destroyed by the unilateral act of one of the parties, the protection which they afford is temporary and uncertain.

The features of double taxation between provinces which we have discussed appear also as between the provinces of Canada and foreign countries. Double taxation tends to impede the free flow of investment capital between other countries and Canada, and can only be avoided by agreements between taxing authorities. Some provinces have attempted to negotiate such agreements, but the agreements which they may make can never have the binding force of international treaties or conventions; nor is it quite reasonable to expect other nations to negotiate separately with each Canadian province. The Dominion is in a much better position to negotiate international agreements and it would no doubt do so if it had sole control of inheritance taxes and was thus able to implement the undertakings which it would have to give.

We have discussed at length in Book I of this Report the integrated nature of the economy and the tendency of surplus income and taxable wealth to "pool up" in certain metropolitan areas where the head offices of national enterprises are located. This in part explains the differences among the provinces in the per capita yield of succession duty taxes. From 1926 to 1939, for example, 85 per cent of all succession duty collections were made in Ontario and Quebec yet during these years these two provinces produced on the average only about 65 per cent of the national income. While undoubtedly the exploitation of natural resources within the province has frequently been the source of large incomes and large estates, this exploitation has often been facilitated by national transportation, trade, and monetary policies. Other large estates have been the result of accumulation of profits from mercantile, financial, transportation and other enterprises with national ramifications. And it may be reasonably assumed that every large estate in recent times has been at least in part accumulated out of profits from nation-wide enterprises. Hence, whatever the situation when wealth was largely the result of local enterprise, it cannot now be assumed that the provinces have any moral right to the exclusive enjoyment of the tax on the ground that provincial policy has made possible the accumulation of large estates. Indeed, the only equitable way in which the tax could be left to the provinces would be by a system of centralized collection and redistribution among the provinces, perhaps on a per capita basis.

The great variability of the yield from succession duties in general makes them unsuitable as provincial taxes from the point of view of stability of revenues. The death of one rich man may distort a province's revenues out of all proportion. Windfalls of this sort may tempt a government into unduly optimistic expenditures. On the other hand, budgetary estimates of the yield can be little more than guesswork, and the failure of estimated revenues from the tax may throw a provincial account into serious deficit. Were the tax exclusively a Dominion tax, the yield would be much less variable in view of the much wider population base and, in any case, the variability would not unbalance Dominion revenues to anything like the same degree, in view of the much larger Dominion revenues and wider assortment of tax resources. Given other assured revenues equal to the average

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[11] Ex. 95, Brief of Dominion Mortgage and Investments Ass'n, p. 14; Ex. 394, Brief of Canadian Chamber of Commerce.

[12] Ex. 66, Brief of Regina Board of Trade, p. 2; Ex. 92, Brief of Canadian Life Insurance Officers' Ass'n, p. 23; Ex. 95, Brief of Dominion Mortgage and Investments Ass'n, pp. 10-17; Ex. 236, Brief of Edmonton Chamber of Commerce, p. 52; Ex. 267, Brief of Citizens' Research Institute of Canada, pp. 60-63; Ex. 268, Brief of Toronto Board of Trade, pp. 45-49; Ex. 394, Brief of Canadian Chamber of Commerce, pp. 5-6; Ex. 401, Brief of Communist Party, pp. 61, 68.

[13] For views of various provinces with respect to jurisdiction see: Brief of Man. Pt. VIII, p. 55; Brief of Sask. pp. 116-20 (Ev. pp. 1589-97); Brief of N.S., p. 52 (Ev. pp. 3497-98); Brief of P.E.I., pp. 47-48; Brief of Ont. Pt. II, pp. 67-69 (Ev. pp. 7661-69); Brief of N.B., pp. 30-31 (Ev. pp. 4062-65).

[14] It was stated in evidence at the Commission hearings in Toronto (Ev. pp. 7667-69) that, following the abrogation by the Province of Alberta of the agreement with Ontario, the latter Province denounced not only the Alberta agreement but the agreements with all other provinces, and there followed the destruction by other provinces of the whole system of reciprocal agreements that had been laboriously built up.

yield of succession duty taxes, there can be little doubt that every province would find its revenue position more stable, and less subject to uncontrollable fluctuations.

The variability of the yield in each province, and the inequalities of the yield as between provinces, are clearly indicated by the following table:—

Succession Duty Collections in Relation to Provincial Revenues, 1926-1937

—	Succession Duty Proportion of Total Provincial Revenues, excluding Subsidies 1926-1937			Provincial Shares of Succession Duty Collections (1926–1937)
	Annual Low	Annual High	Average	
	%	%	%	%
Prince Edw. Island.	1·9	7·1	4·3	0·2
Nova Scotia.....	4·5	14·1	6·7	2·1
New Brunswick....	4·6	18·7	8·1	2·0
Quebec.....	10·0	20·4	13·0	27·4
Ontario.....	10·4	23·9	17·6	56·1
Manitoba.....	3·0	10·1	5·2	2·9
Saskatchewan.....	1·6	3·9	2·7	1·6
Alberta.....	2·2	7·7	4·0	2·8
British Columbia..	2·4	5·0	3·8	4·9
				100·0

In the modern state inheritance taxes are an important instrument of social policy, especially as a means of financing social services and thus effecting some transfer of wealth from rich to poor. Were the provinces completely responsible financially for carrying social services there might be a strong argument for leaving the tax with the provinces. But the Dominion is already bearing a larger portion of welfare costs than that carried by provincial budgets,[15] and our proposal that the Dominion should take over the responsibility for unemployed employables, and should make adjustment grants on the basis of need, will, if implemented, place the major share of the cost for public welfare upon the Dominion. But in any case, it is doubtful whether inheritance taxes can be effectively used by nine provincial governments as an instrument of social policy, at least without serious detriment to the national economy.

Although the total revenue raised by succession duties in all provinces has averaged less than $20 million a year during the past ten years, or between 3 and 5 per cent of the combined Dominion-provincial revenue, succession duties as they are now enforced are detrimental to the Canadian economy. The rates and the degree of graduation of taxation are not uniform in the different provinces and wealthy individuals have, therefore, an inducement to choose with care their place of residence and the location of their investments. They cannot with impunity choose the former on grounds of amenity and the latter in accordance with economic opportunity. There is even an inducement for a province to keep its inheritance taxes relatively low in order to attract the owners of wealth. To avoid double taxation, investors will tend to confine their investments to the province in which they are domiciled.[16] The individual, faced with the prospect of double taxation, cannot be criticized for taking such steps to avoid it as are open to him, but it is not in the public interest that freedom of investment and the free movement of capital within Canada should thus be hampered.

High rates of inheritance taxes are, of course, likely to have important effects on the national economy. It is sometimes contended that they tend to deplete the capital resources of a nation while income taxes do not. This contention is, in ordinary circumstances, mistaken. Both these taxes tend to deplete the capital resources of the state but they take the place of other taxes which would be required instead. Thus, while falling on some citizens, they indirectly enable others to save. In some cases, too, individuals may have been stimulated to make greater savings in order to leave what they consider a suitable provision for their heirs. Of course, just as severe rates of income tax may lead taxpayers to refrain from exerting themselves to earn some additional income which would be heavily taxed, so severe rates of inheritance tax might lead people to avoid accumulations of wealth and to buy annuities.[17]

Admitting the possibility of adverse effects on the national income from excessive rates of

[15]

Public Welfare Expenditures 1937-9
(Exclusive of military pensions and after-care)
(Thousands of Dollars)

—	1937	1938	1939
Dominion.....	111,183	84,141	114,995
Provincial.....	88,724	84,569	82,986

* Appendix I., p. 37.

[16] It was stated in evidence (p. 9541) by the general manager of a large trust company, that it had been found necessary to advise clients to invest in only one province.

[17] In the case of both taxes some provision has had to be made against the abuse of gifts *inter vivos* and both the Federal Government and the provinces have imposed taxes on these gifts.

inheritance taxes, inheritance taxes in Canada still seem to afford some leeway before this point is reached. In Canada the rates of inheritance taxes, like the rates of income taxes, are light in the lower brackets in comparison with the levies imposed by other countries. For the ten-year period 1926-35, the yield of inheritance taxes per capita was annually from 1·8 to 3·8 times as large in Australia as in Canada, and from 2·1 to 5·2 times as large in New Zealand as in Canada. Nevertheless, if this reserve should be tapped by nine different jurisdictions there can be little doubt that the tendency would be to increase the inequities of double taxation, and to encourage tax evasion by various expedients. If this reserve is to be tapped, there can be no doubt that the most economical method of doing so, and the method least harmful to the national economy, is by the Dominion alone.

A further consideration is the probability—if our financial recommendations are not adopted—that the Dominion may be compelled to enter the inheritance tax field either to assist in meeting recurring deficits in current account, due so largely to financing unemployment relief, or to assist in financing emergencies such as war expenditures. Such a step might indeed be serious to the national economy, as well as to potential taxpayers. And, in any case, it would impair inheritance taxes as a source of provincial revenues.

Finally, inheritance taxes, like income taxes, require a fairly elaborate organization for their efficient collection. There is a certain practical convenience and perhaps less opportunity for evasion if both can be collected by the same authority. The returns which a taxpayer makes in his lifetime afford some help in checking the returns[18] which are made on his death and the converse of this proposition is equally true. The Dominion is probably in a better position than any single province to deter citizens of Canada from establishing domiciles outside Canada for the purpose of escaping from liability for Canadian inheritance taxes.

For the reasons set forth at length above, the Commission recommends that the provinces withdraw entirely from the inheritance tax field. Such a step is an essential part of the Financial Plan recommended by the Commission. But, in any case, the Commission is convinced that inheritance taxes are not a satisfactory source of provincial revenue, whether from the point of view of stability of revenues, or of the effects of the tax on the national economy. The Dominion would be a more efficient tax-gatherer than nine provincial jurisdictions in that it could collect the most revenue at any given rate with least injury to the taxpayer and least harm to the national income. If our financial recommendations are not adopted, and if the provinces still elect to retain inheritance taxes, we think that every effort should be made to work out a common inheritance tax program for all provinces, and to entrust collection to the Dominion which would redistribute on an agreed basis. This at least would have the merit of minimizing double taxation and the present tendencies of inheritance taxes towards immobilizing investment.

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Federal Administration of Inheritance Taxes.—It would be particularly important, if the Commission's recommendations are implemented, to provide for decentralized collection and to give local collectors adequate authority to clear estates promptly. Nothing could be more indefensible and irritating than prolonged negotiations, at a time of emotional strain and probable financial demands, with a distant authority over details which could be settled immediately by a man on the spot. Succession duty collection procedure consequently cannot be modelled after income tax procedure, where delays in final settlement due to special investigation or pressure of departmental work do not usually result in any hardship or inconvenience to the taxpayer. It must, of course, be recognized that special arrangements would have to be made in Quebec to conform to the differences between the Civil Code and the common law in such matters as the functions of executors and administrators, as to the principle of community of property between husband and wife, and as to laws of transmission. The framing of succession duty statutes involves important questions of equity and efficiency in taxation which are discussed in Chapter VIII of this Section.

[18] See Ex. 357, Brief of N.B., pp. 30-31; Ev. (N.S.), p. 3947.

4. Summary of Tax Recommendations

For reasons set forth in detail in the preceding divisions of this chapter the Commission recommends that the provinces should withdraw entirely from the following tax fields:—

(*a*) Income taxes (with an exception for premiums for social insurance within provincial jurisdiction);

(*b*) Corporation taxes as defined in detail above;

(*c*) Inheritance (or Succession Duty) taxes.

The Commission recommends further that a rebate should be made to the provinces of an amount equal to 10 per cent of all profits of mining (including oil development), and smelting and refining of native provincial mineral products.

The Commission's recommendations in these respects are based on two grounds. (1) The withdrawal of the provinces from these fields is an essential feature of its Financial Plan, since under this Plan the Dominion will assume all deadweight provincial debt, responsibility for unemployed employables, and new National Adjustment Grants to certain provinces. All provinces will, under these circumstances, receive an adequate *quid pro quo* for withdrawal from the tax fields specified. (2) The transfer of these tax sources to the Dominion and their use by a single jurisdiction is essential, both for reasons of equity as between provinces, and for assuring that these tax fields will be exploited with least harm to the national income.

In view of the general provisions of Plan I it is not necessary to consider the objection that some provincial governments would, in the case of any of these taxes, or all taken together, forgo more than others. Provincial governments are undoubtedly more interested in having adequate revenues to perform their functions than in taxes for their own sakes. Since such revenues as a whole are assured, and in the majority of cases far more definitely assured than could be done by any conceivable delegation of taxing powers,[19] the Commission's proposals cannot be criticized on the ground that some one of the transfers recommended, taken individually, will affect provinces unequally.

It must be recognized that any one of the Commission's proposals, taken alone, might work out in a very inequitable way. This introduces a final consideration, viz., the unfair, and in some cases intolerable, pressure on taxpayers in some provinces and on some provincial governments which would result if the Plan should not be implemented, and circumstances should force the Dominion to increase existing personal income taxes and corporation income taxes in competition with current, or possibly higher, provincial taxes, and probably to enter the inheritance tax field as well. This would not only produce double taxation of crushing proportions, but double taxation which would vary greatly as between provinces, entailing disadvantages to investment and free movement of individuals. It is important to note that under the present system, far from there being any security against this occurring, there is a strong tendency in this direction. It is only under some comprehensive arrangement such as that proposed in Plan I that the provincial governments now in the strongest position will be protected against continued encroachment on their revenue sources without compensating relief from responsibilities.

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[19] The Governments of Ontario (Ev. p. 7621) and of British Columbia (Ev. p. 5080) said that if the Dominion abandoned the personal income tax field, they could (with, in the case of B.C., certain other adjustments) arrange their finances satisfactorily. Such a proposal would, of course, not only cripple Dominion finances and be a major blow to possibilities of reforming and modernizing Canadian taxation, but would also completely fail to meet the needs of the majority of the other provinces.

Chapter IV

DOMINION AND PROVINCIAL DEBTS

Governments come and go, and human memories are short, but the full history of every administration is preserved for the edification of future generations in the debt—or absence of debt—of each governmental unit.

Government debt was originally incurred either to make communal investment in public works of some form, or to meet emergencies and temporary deficits. In the former case the debt was usually expected to be self-supporting; in the latter to be liquidated quickly when normal conditions returned. So long as it was possible to maintain substantially this position governmental debts presented no particular problem. It was only when large investments in public works turned out to be neither directly nor indirectly self-supporting, and when funded deficits grew to such size that their amortization in a short period of time was not practical, that the problem of deadweight debt arose.[1]

For the purposes of our discussion we may classify government debts in three categories: self-supporting debts which pay their full interest and amortization charges directly; productive, but not directly self-supporting debts represented by tangible and useful assets which increase the productive power and taxable capacity of the economy, and are thus in fact indirectly self-supporting in whole or part; and deadweight debts representing deficits and bad investments for which no tangible or useful assets exist.[2]

The amount of directly self-supporting debt—whether very large or small—of any government is of little importance as far as public finance goes, although it may affect, to some degree, the distribution of income both as between classes and between regions. The importance of productive, but not directly self-supporting, debt will depend on the degree to which the debt is, in fact, indirectly self-supporting. What is of great importance, however, is the amount of deadweight debt, particularly if it is held outside the taxing jurisdiction of the debtor government. This can force a government into bankruptcy, or, less extremely, necessitate an undesirable curtailment of services in an effort to meet the fixed charges without excessive taxation. Few provincial governments are in a position to carry any substantial amount of deadweight debt; the Dominion Government, with its comprehensive tax basis and economic and financial powers is in much the best position to carry this burden advantageously.

It is generally the case that the provinces with the proportionately heavier deadweight debts—arising from unprofitable investments and deficits—are also the provinces in inferior economic positions, and the burden in such cases is doubly onerous. Many of the distortions of the corporation taxation system may be traced to the efforts of governments in this position to secure revenues to which they felt morally entitled but which they normally were not in a position to collect. The deadweight debt burden is also responsible for many of the great disparities in governmental services, with all their undesirable economic and social consequences, in different parts of Canada. And finally, the burden of deadweight debt, which is frequently singled out for political attack, is a constant menace to the credit of the government and the security of investors in its bonds.

It may be argued, however, that where deadweight debt represents extravagance and mismanagement, the electorate should pay for their failure to elect a more business-like government. But, whatever examples of extravagance may exist, only a very small portion of the total deadweight debt of Canadian governments can be charged to mismanagement. The great bulk of it has accumulated partly as a result of investments in transportation and other developmental facilities, which were generally considered sound and necessary at the time, and partly as a result of the unpredictable impacts of the World War, and later of the world depression, with all their attendant social costs. A substantial proportion may be attributed to the lack of effective co-ordination between Dominion and provincial governments in facing such major

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[1] For growth of debt structure see Book I: Public Finance section in each chapter.

[2] It may be objected that the concept of deadweight debt is more appropriate to a commercial undertaking than to a government, since deadweight debt (unless due to such losses as embezzlement, for example) may be represented by intangible but nevertheless valuable social assets. For example, although relief debts have no offsetting assets in the balance sheet they were necessarily incurred to keep some of the population from starving, and to preserve the whole social framework; and the offsetting asset of war debts may be the country's independence. But for purposes of practical consideration, a specific classification, reducible to accounting terms, is necessary.

problems as unemployment and transportation. Only in extreme cases of extravagance and incompetence—which usually become notorious and are likely to be condemned in short order—can a largely uninformed and non-technical electorate be held responsible for having failed to check a fiscal policy which later turned out to be disastrous.

At Confederation the expediency was recognized of pooling in the hands of the Dominion the $70 million of largely non-self-supporting provincial debt resulting from railway and canal expenditures. Provincial deadweight debts did not again become a serious problem until the Western Provinces made relatively huge commitments for railway guarantees in the immediate pre-War boom. The Dominion, through the Canadian National Railways, in fact, although not formally, later assumed these guarantees, and saved some at least of the western governments from bankruptcy. During the depression provincial deadweight debts have again begun to mount rapidly as a result of reduced investment earnings, deficits on ordinary account, and relief expenditures. In the most serious case—that of Saskatchewan—the Dominion has already assumed a large part of the provincial debt created by relief, but, as is well known, the debt structure of some provinces demands immediate attention.

Such attention should not be regarded as being primarily an expedition to rescue bondholders, although the Commission does not have to apologize for recommending a solution which does not impose on a few groups of investors losses which arose from general and uncontrollable causes. The principle of national responsibility was recognized by implication when the Dominion made loans to the Western Provinces from 1931 to 1934 to meet maturing debt and interest obligations, and although this practice was subsequently discontinued, some may feel that a moral guarantee remains to purchasers of provincial bonds during this period. The primary purposes of the Commission's recommendation that the Dominion should assume the responsibility for servicing all non-self-supporting provincial debt are to put all provinces in a position to proceed with reasonable borrowing for productive purposes and to put the debt problem in the hands of the government which can most efficiently and advantageously handle it. Destruction of provincial credit not only damages investors (and through investors,—who include banks, trust companies, insurance companies, and other governments,—a major portion of the Canadian people in some form or other), but it directly hurts the residents of the province itself and prevents financing of desirable development on favourable terms, and borrowing to meet some sudden need on anything but ruinous terms. Canada should try to avoid the vicious cycle of high interest rates because of frequent defaults, and frequent defaults because of high interest rates, which has burdened the people of many central European and Latin-American agricultural areas and blocked any improvement in their standards of living.

It has frequently been suggested that the particular difficulties of the Western Provinces be recognized by cancelling their debts to the Dominion. Quite apart from the general considerations of the Commission's Plan I, which applies the same principles to all provinces alike, it would not be just and equitable to single out the Western Provinces, or some of the Western Provinces, for special treatment because deadweight debt has increased more, and more rapidly, there in recent years than in other provinces. In fact, persistent difficulties, reflected in chronic deficits and a long, slow accumulation of deadweight debt may be much more serious, and bear with much greater pressure on provincial residents, both as recipients of services and taxpayers.

A special feature of Canadian governmental debts is the high proportion payable in foreign currencies. These debts were contracted when maintenance of the gold standard was taken for granted, and only fractional foreign exchange rate fluctuations were anticipated. The possibilities of wide variations in the exchange rate due to external and uncontrollable forces, and deliberate variations to facilitate economic adjustment and to redistribute burdens and income internally were not appreciated. Within the last decade, however, exchange rate control has become a recognized and almost respectable weapon in every nation's arsenal of economic policies. It has also become apparent that if this weapon is to be used effectively it must be in the hands of one body, and that all commitments in foreign currencies, by governments or individuals, must be subject to the control of that body.

Only one-half the total provincial debt, and 60 per cent of the total Dominion and Canadian National Railways debt, are payable exclusively in Canadian currency. The potential exchange burden on interest payments in foreign currencies of some $115 million a year, and of maturities averaging about half this amount,[3] for Dominion and

[3] See Book III and Appendix I.

provincial governments alone, is a major item. It is also one which is completely uncontrollable by the provinces (in so far as past commitments are concerned), and one which can now scarcely be held to be primarily a provincial responsibility since the Dominion has accepted full responsibility for exchange policy. Under the Commission's recommendations, the Dominion would meet any additional payments which might arise from exchange rate fluctuations since the Dominion will pay the total debt charges, including any exchange premium, on all provincial debts. (The amounts which the provinces will turn over to the Dominion, representing the interest on their self-supporting debts, is of course a fixed sum in Canadian currency.)

It would be clearly undesirable to relieve provincial governments of their existing debt burdens, and leave conditions which would necessitate or encourage renewed borrowing of a deadweight character and a repetition of the present situation within a short period of time. The Commission's proposals for adjustment and emergency grants in Plan I are designed to avoid the necessity of provincial borrowing to meet chronic deficits or sudden disasters in the future. It is recommended that borrowings for developmental purposes, or productive public works, may either be made directly, on the sole credit of the province, with the one restriction that principal and interest must be payable only in lawful money of Canada, or they may be made through the Finance Commission, after its approval has been secured. In the first case, if a province chooses to borrow directly on its own credit, the service on the loan must be met entirely by the province, and will be excluded in calculations for adjustment grants. If the loan proves self-supporting (directly or indirectly) this will not, of course, concern the province; if the loan should fail to prove self-supporting the province will have to impose somewhat heavier taxation, or make somewhat greater reductions in its other expenditures. In the alternative case, if a province submits its loan proposal to the Finance Commission, and secures the approval of that body, it would be equally unaffected if the loan proved self-supporting. But if the loan shoul fail to be self-supporting, the province would be able to include the charges of the loan should it be entitled to present a claim for an increase in its National Adjustment Grant (or for a grant in case it should not then be receiving one).

A special situation exists in Quebec where the Provincial Government has assisted the financing of certain hospitals and other charitable institutions by granting subsidies, which are deposited with a trustee, for the specific purpose of paying interest and amortization charges on the institution's funded debt. In other provinces where similar assistance has been given, the debt has either been directly assumed or directly guaranteed by the provincial government. The amount which the Province of Quebec has contracted to pay under this arrangement was $15,786,000 as at June 30, 1938. It is not proposed to disturb the present contractual arrangements between the holders of these institutional bonds, the trustees, and the Provincial Government, but in order to put the Province of Quebec in exactly the same position it would be in if these bonds had been directly guaranteed by the Provincial Government, and so on a comparable basis with those of other provinces, the subsidies paid have been included in the calculation of the National Adjustment Grant recommended. The financial results to the Province and to the Dominion are thus exactly the same as they would be if the service charges were transferred to the Dominion—i.e., the National Adjustment Grant would be reduced by whatever amount of debt service was transferred.

It is clear that the Commission's proposals throw a substantial burden on the Dominion. Not only will all existing non-self-supporting debt be assumed by the Federal Government, but it would appear likely that future increases will tend to become Dominion liabilities. This is the Commission's deliberate intention, since there is ample evidence to establish that the Dominion, and only the Dominion, can and should bear the fixed deadweight charges which have arisen from unproductive developmental policies and from depression expenditures largely beyond the control of the individual provinces. There are also positive advantages arising from consolidation and unified management of Dominion and provincial debts. Substantial savings would be achieved, at least relatively, over a period of time by refunding. The most advantageous distribution of maturities and timing of new issues would be possible. Debt management would be in the hands of the government responsible for monetary and exchange policy. As this is also the government which would be responsible for unemployment relief and for dealing with major emergencies such as war, effective co-ordination of all these policies could be achieved.

Chapter V

NATIONAL ADJUSTMENT GRANTS

The Commission's recommendations for payment of National Adjustment Grants, and for provision of a body to advise on future adjustment grants and emergency grants, are of major importance for several reasons. They are a complete break from the traditional subsidy system and the principles ostensibly underlying it. They make provision for the Commission's recommendations (other than those for the relief of unemployed employables) on the major subjects of public welfare, education, and provincial developmental and conservation expenditures. They illustrate the Commission's conviction that provincial autonomy in these fields must be respected and strengthened, and that the only true independence is financial security. They meet a number of provincial grievances and claims, raised under other heads. They are designed to make it possible for every province to provide for its people services of average Canadian standards and they will thus alleviate distress and shameful conditions which now weaken national unity and handicap many Canadians. They are the concrete expression of the Commission's conception of a federal system which will both preserve a healthy local autonomy and build a stronger and more united nation.

The proposed method of operation has been outlined in the description of Plan I.[1] Joint provincial-municipal expenditures on public welfare and education have been taken on a per capita base for every province, and, after adjustment in some cases for costs of living and other local circumstances, have been compared with the national average.[2] In addition, the annual average of total current highway, agriculture, and public domain expenditures by each province for the years 1928 to 1931 was taken as the most satisfactory estimate available of "normal" developmental expenditures in that province. (An exception had to be made for the Prairie Provinces, since control of their resources was not transferred to them until 1930, and in their cases, only highway expenditures were taken.) The base period chosen is the most favourable one, from the point of view of the provinces, that could be selected, but the Commission does not consider it excessively generous in view of the expanding nature of highway expenditures, and the evident need for developmental and conservation expenditures in many instances. The proportion of total provincial and municipal taxation to the total income of each province (considering only those taxes which would remain with the provinces under the terms of the Commission's tax recommendations in Plan I) has been compared with the national average. In the subsequent calculations less weight has been given the taxation comparison, which could not be as satisfactorily determined as the education, welfare, and developmental expenditure comparisons, but the taxation comparison was introduced so that no province would be penalized for having provided superior services if it had done so by having taxed its residents with more than average severity, and so that no province would receive a payment to enable it to improve inferior services if it had chosen to have inferior services in order to tax its residents less severely than the average. The only exception to this general method was in the case of Quebec where the notable work of the Church in the fields of education and public welfare could neither be ignored nor measured in monetary terms. Consequently, in the case of Quebec it was necessary to make the arbitrary assumption that the contribution of the Church brought education and welfare service standards up to the national average.

The Commission has for this purpose developed a series of public finance and provincial income statistics in which every effort has been made to secure real comparability, but it is keenly aware of the crudeness of the techniques and the approximate nature of the statistics on which it has had to rely. However, in spite of the margin of error necessarily present, the Commission believes that its estimates furnish a satisfactory working base until more refined statistics are developed. It is the Commission's hope that the Finance Commission (or in the event of the Commission's recommendations not being implemented, some other

[1] See p. 83.

[2] The national average excludes, for reasons to be noted, the Province of Quebec.

appropriate body) will develop and improve this material, which is basic to any serious consideration of public finance in general and Dominion-provincial relations in particular.

The purpose of the National Adjustment Grants to be paid by the Dominion to the provincial governments is then, in brief, to provide for balanced provincial budgets after provision for expansion of education and welfare services to the national average where these services are below it, and expansion of developmental expenditures to the 1928-31 averages of the individual provinces. This is, of course, a radical departure from the existing system of statutory subsidies, supplemented by special subsidies and conditional subsidies. The statutory subsidy system was not, however, so dissimilar in its origin. As we have discussed in Book I,[3] and as noted in the studies made for the Commission[4] the original subsidies were frankly adopted as expedients to make Confederation possible. After functions and taxation powers were allocated to the new Dominion and provincial governments it was clear that the remaining provincial and municipal revenues would be insufficient to support the remaining provincial and municipal expenditures. Reluctantly, for there was strong feeling against one government raising money to be transferred to and spent by another government, it was agreed to meet the difference by Dominion subsidies. Considering the undeveloped state of the taxation system and the nature of the economy of the time, there appeared to be no practical alternative. But although the subsidies were thus initially determined by the calculated fiscal need of the provincial governments, great efforts were made to freeze them in perpetuity at the 1867 amounts, and to this end elaborate formulae were devised to fit the amounts and to give the appearance of equality of treatment. Even at that time statistical equality of treatment did not produce real equality, but the more self-sufficient nature of the economy, and the much smaller scale of public finance as compared with today made the differences of little importance. Neither the growth in governmental responsibilities nor the great regional shifts in taxable incomes which occurred in the next seventy years could have then been foreseen.

As we have recounted at length in Book I it proved impossible, almost from the very beginning, to keep the subsidies at the 1867 level. The fiscal need of some provincial governments made increases necessary, but the increase had always to be justified by some ingenious interpretation of the accepted formula. This led to political bargaining and devious legalistic argument, and failed to meet the necessities of the situation. The provinces were driven to uneconomic taxation methods, and increasing differentials developed in the services which they supplied. With the entrance of new provinces, and the establishment of arbitrary "lump sum" subsidies, and debt allowances and per capita subsidies based on fictitious population figures, the last shreds of logic of the old system vanished. Nevertheless the form was clung to, although the rapid development of the economy and growing disparities in the distribution of taxable income, and the increasing post-War demands on governments made it necessary to supplement the statutory subsidies with a growing number of special subsidies. These in fact departed completely from the theoretical principles of equal treatment, but introduced no new principles and objective scientific criteria in their place.

Experiments were made with the conditional subsidy technique. It first seemed to be a happy compromise, and an escape from the strait jacket of the obsolete statutory subsidy formulae. Assistance could be given where necessary, and administration left in provincial hands, but, as a safeguard against abuses and irresponsible expenditure, the Dominion could enforce compliance with specific conditions and uniform national standards. However, the flaws in the system became clearly apparent when, under the pressure of expanding social service demands and depression conditions in the thirties, the transfers involved grew to huge proportions.[5] A system which might work well, even in a federation, on a limited scale and for certain specific and clearly defined objectives, broke down completely as a means of financing a large proportion of provincial functions. By 1937 the statutory subsidies, special subsidies, and conditional subsidies were nearly half the total of provincial revenues from their own sources. The Dominion in respect to conditional

[3] Book I, Chap. I.

[4] Appendix 2—D. G. Creighton: *British North America at Confederation*, and Eggleston and Kraft, *Provincial Subsidies and Grants* (mimeographed), p. 1*ff*.

[5]

Provincial Subsidies, 1937

	$ millions
Statutory subsidies	14
Special grants	7
Conditional grants	82
Total	103
Provincial revenues from own sources	226
Grand Total	329

subsidies had to impose either such rigid and detailed conditions (often unsuitable to local conditions), involving such minute inspection and regulation as to be a major infringement on provincial autonomy and practical only in a unitary state, or general conditions which were only nominally observed and no real check on any irresponsible expenditure. The latter proved to be the general, and almost inevitable practice.[6] Even limited efforts at effective regulation of the expenditure of conditional subsidies led to bitter Dominion-provincial fights. But acceptance by the Dominion of the role of a rubber stamp opened the way to waste of public funds, incapacity to deal with national problems on a national scale, and lack of enforcement of national standards where these were appropriate. These weaknesses and abuses were all the more vicious because the pretence was preserved that the subsidies were "conditional", and that violation of the conditions would lead to their suspension of grants. That this was an empty threat, everyone knew. Since such major expenditures as old age pensions and unemployment relief, affecting such a large proportion of the population, have come to be financed by conditional grants, it is neither humane nor politically possible to suspend them. Constant bickering can, and does, go on, and the more flagrant abuses may be corrected as the result of persistent criticism, but the provincial authorities know that in the final analysis the subsidies will be paid.

There are many fields in which the conditional subsidy may be highly useful. Where the amounts involved are not large; where technical criteria for objective and scientific measurement exist; where administration is in the hands of a professional personnel; and where it is in the national interest to stimulate some otherwise lagging local activity, the conditional subsidy may be an appropriate and efficient instrument. In a unitary state, of course, its scope of usefulness would be much greater, since the question of infringing local autonomy (if the conditions are to be enforced) does not arise, or at least does not arise to the same extent. But as a method of financing major functions of government and of providing for necessary inter-governmental transfers in a federal state, it fails to meet the test of efficiency, and dissipates seriously responsibility for public expenditures.

[6] Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 28*ff*, *Cf.* Book I, Chap. IX.

It is for these reasons that the Commission recommends National Adjustment Grants, as outlined above, to balance provincial budgets and to provide for maintenance of average standards. The principle is basically the same as that underlying the Confederation settlement, but the major changes which have occurred since Confederation in the relative taxable capacity and governmental responsibilities of the different provinces make it necessary to discard the assumption that equal per capita payments would provide for real equality of fiscal positions. This assumption has, in fact, long been discarded, and it has been the Commission's effort to replace the obsolete formula, and the *ad hoc* makeshifts which have grown up about it, with a system based as far as possible on ascertainable facts and real equality of treatment.

As explained in the outline of Plan I, no conditions are attached to the National Adjustment Grants. They are given when a province cannot supply average standards of certain specified services without greater than average taxation, but the province is free to determine on what services the grants will be spent, or whether they will be used not to improve services but to reduce provincial (and municipal) taxation. It may be assumed that there will be strong public pressure to improve those services which are below the Canadian average once the necessary funds are available, but it is the Commission's view that the extent to which this is done and the methods by which it is done (i.e., either by direct provincial expenditures or by subsidies to municipalities) can best be determined by the provincial electors and their representatives. The Commission's recommendation for Dominion assumption of relief for unemployed employables will abolish the conditional subsidy in connection with which there have been the most serious abuses and inefficiency. It is recommended, however, that the old age pension system be left undisturbed; the Commission recognizes that the contribution to which the Dominion Government has already committed itself for a primarily provincial responsibility is justified by various national, fiscal, and practical considerations. And the Commission would not consider the future introduction of conditional subsidies for certain limited and clearly specified purposes in other fields objectionable, although it is believed that the provision of National Adjustment Grants will remove much of the pressure for these arising from fiscal need. But in its recommendation for National Adjustment Grants the Commission has deliberately abstained from suggesting that the

grants should be made on conditions which would either violate provincial autonomy in these important services, or simply be a sham.

"Yardsticks"

It is necessary to say something of the services which have been selected as a yardstick for determining the adjustment grants. These services represent (1937 basis) three-quarters of the total provincial expenditures which will remain if Plan I is implemented, and slightly more than half the combined provincial-municipal expenditures.

Education and Welfare Services on the Canadian average.—The quality of education and welfare services is no longer a matter of purely provincial and local concern. In Canada today, freedom of movement and equality of opportunity are more important than ever before, and these depend in part on the maintenance of at least minimum national standards for education, public health and care of the indigent. The most economically-distressed areas are the ones least capable of supporting these services, and yet are also the ones in which the needs are likely to be greatest. Whether the remedy lies in emigration from these areas or in the development of alternative means of livelihood, they must not be allowed to become backwaters of illiteracy and disease. Not only national duty and decency, if Canada is to be a nation at all, but equity and national self-interest demand that the residents of these areas be given average services and equal opportunities,—equity because these areas may have been impoverished by the national economic policies which enriched other areas, and which were adopted in the general interest. Those whose interests were sacrificed have some claim that the partnership should work both ways. National self-interest demands it because the existence of areas of inferior educational and public health standards affects the whole population, and creates many grave and dangerous problems. In the modern age these areas be given average services and equal wished, and constant contact and intermingling of the population between favoured and unfavoured regions is bound to occur. The more fortunate areas cannot escape the pressure on their standards and the effect on their people; in this case prevention, in both fiscal and human terms, is much cheaper than the cure.

It will be clear from the discussion in the Social Service Chapter[7] why the Commission has dealt with the problem of relief for unemployed employables in quite a different way. The allocation of jurisdiction to the Dominion in that case, and the affirmation of provincial jurisdiction and the financial strengthening of provincial autonomy through the National Adjustment Grant mechanism in all the remaining fields of social services is a logical division of responsibility based on reasoned principles. At the risk of some repetition of the argument in the foregoing section on Social Services it is desirable to recapitulate the reasons for the Commission's recommendation on the responsibility for unemployment relief. By contrasting the proposed methods the fundamental difference in the nature of the problems concerned can best be illustrated. It will then be clear why the Commission does not believe that the first method—transfer of jurisdiction to the Dominion—would be desirable in the case of most social services, nor that the second method—provision of adequate funds for provincial administration by National Adjustment Grants—would be a desirable way of handling relief for unemployed employables.

The principles guiding the Commission's recommendations are that the recognized needs of those who are incapable of supporting themselves should be a local (i.e., municipal and provincial) responsibility, and that the needs of those who are able to support themselves but lack the opportunity should be a federal responsibility.

The indigent has traditionally been pictured as an unfortunate, of local origin, who is physically or mentally incapable of earning his livelihood. His care has traditionally been a local responsibility, and there are strong arguments to support this allocation of responsibility wherever it is practicable. The community (and the regional area) presumably develop a greater sense of kindred responsibility and neighbourhood spirit than is possible in the national unit; local knowledge and local administration can determine real needs more accurately, establish appropriate standards more fairly, and supervise more economically than can a centralized and distant bureaucracy, and at the same time, be more humane and helpful to the recipient.

But the growth of agricultural and industrial specialization, and of a highly geared and powerful, but highly sensitive and vulnerable economic mechanism introduced new factors. Large numbers of able-bodied workers and farmers were, under the new order of things, periodically threatened with complete destitution. In Canada, the preliminary ripples of 1913 and 1921 gave no warning of the tidal wave of 1930-36. When this struck it hit an economy which, because of a series of fortuitous coincidences, had never suffered a major depression or been faced with the need for a major economic

[7] See Sect. A, Chap. I.

adjustment since it became of age. And it is not surprising that the public finance structure was equally unprepared for the deluge.

The areas in which destitution and the need for relief grew most alarmingly were also the areas in which local revenues and credit fell most abruptly; the traditional local responsibility for relief of destitution broke down almost overnight.[8] Nevertheless, an attempt was made to preserve the façade of the old structure, and huge inter-governmental loans and grants were made for this purpose in a manner which quickly undermined the financial independence of the provinces (which is fundamental to the federal system) and which made a mockery of responsibility in public finance. In one form or another this method of financing relief has been continued on a shifting, *ad hoc,* and always temporary basis.

The traditional technique of poor relief is quite inadequate for coping with the modern problems of mass unemployment and mass agricultural destitution in Canada.

The causes of these problems are in no sense local; they lie in national and international trade cycles, and, to some extent, in climatic cycles. The burdens resulting from these problems never fall with equal incidence on the different provinces; and they are subject to extreme and erratic fluctuations. Both problems call for constructive remedial policies rather than for provision of a mere subsistence for their victims, and remedial policies involve the use and co-ordination of all the weapons in the national armoury—monetary and exchange policy, national taxation and deficit financing, trade and tariff policy. It is for these reasons, in addition to the proven incapacity of municipal and provincial units to bear the financial burden, that the Commission recommends the assumption by the Federal Government of relief for unemployed employables, and relief to a primary industry in general when this burden exceeds the financial capacity of the province concerned.

Developmental and Conservation Services.—The provision for including development and conservation expenditures (provincial highway maintenance, agriculture and public domain) as part of the needs of the provinces has already been described. In a general way the revenue sources remaining to the provinces (together with the National Adjustment Grants in those provinces which receive them) should enable every province to finance a normal developmental program (on the 1928-31 average) including maintenance of the productivity of its natural resources. Separate provision has been made to cover the case of depletion of resources the productivity of which cannot possibly be maintained. As has already been explained it is recommended that the Dominion should pay over to the provincial government concerned mining and oil company taxes equal to 10 per cent of the profits made from exploitation of provincial resources. This would give the provinces a substantially larger revenue than they now receive from corporation taxes of these companies and should enable them (if they so choose) to create new assets, perhaps in the nature of development works, which would offset the depletion and so maintain the general productivity of the provincial economy.

Every province is naturally interested in securing the highest standard of living and the greatest possible measure of economic security for its residents. While the main economic policies of the nation are determined by the Dominion Government, much remains to be done to see that the most advantageous use is made of the province's resources within this framework. There are many cases where community action is more effective than individual action to this end, and it has become a recognized function of provincial governments on occasion to provide facilities such as highways and railways, public utility services, dams and reservoirs to regulate rivers, soil, mineral and forest surveys, which will open up frontier territories and facilitate the development of resources; to protect and conserve resources by forest fire services, cutting restrictions, reforestation protecting game; to develop improved methods applicable to local industries and furnish them with scientific and technical assistance; to battle insect pests and animal and plant diseases; to nurse infant industries and depressed areas; to assist desirable transfers of population and industry—all with a view to strengthening the provincial economy. Some of these services can best be carried out in co-operation with other provinces and by uniform methods, but most of them must be adapted to the special local circumstances and be locally administered. Frequently the objectives are more than economic, and the developmental policies followed will reflect the prevailing political and social philosophy of the particular province. One may favour public ownership, and another development by private capital; one may put

[8] For further discussion see p. 18*ff*.

security and stability first, and another the goal of maximizing the income; one may adopt a laissez-faire attitude in relation to its industries and another a large measure of government planning, assistance and regulation. These are additional reasons why the Commission has adopted a yardstick based on immediate past policy, under generally favourable conditions, rather than any theoretical formula, as an appropriate measure of "normal" developmental expenditures. Resources, needs, and philosophies change, and this measure can only be a temporary one. It is proposed as such, but as one that affords a practical working basis for the present.

The possible benefits from well-administered (and adequately-financed) provincial developmental services are many and large, and affect every resident in the province. It is encouraging to note the recent trend[9] to establish competent professional boards to study provincial economies and consider developmental policies as a whole, rather than to proceed with a number of completely independent projects of widely varying value which may be in direct conflict. An important portion of provincial (and Dominion) deadweight debt is the result of unco-ordinated and ill-considered projects of the latter type.

The Commission has adopted a generous basis for calculation of the adjustment grants, and a generous formula, in its mining tax apportionment proposal partly to make possible more adequate conservation measures. It was brought home clearly in both the evidence submitted in the Commission's hearings,[10] and by the work of the Commission's research staff, that conservation work in general has been seriously neglected, and that far too little attention has been paid to developing the most economic methods of exploiting Canadian resources. Investment in this work is one of the most profitable which Canadian governments can make. There are resources, of course, which cannot be restored or maintained, and there are others which could only be maintained at excessive cost. But the great proportion of our forest resources, our soil resources, our fish and game, can be maintained and improved to the great advantage of the country for generations to come with the use of foresight and a very modest investment.

The problem of exhaustible resources is no less important. Their exploitation should be as efficiently carried out as modern science permits; the rate of exhaustion should be determined by the broadest economic and social considerations, and not solely by the immediate profits of the private producer concerned; in preparation for the day when the last ore-truck trundles out and the last pump stops working, every alternative means of livelihood for the dependent population should be surveyed and developed; and provision must be made in the days of high profits for the amortization of public expenditures on roads, schools, utilities, and other works which will no longer be needed, and for the welfare costs which inevitably accompany such serious adjustments.

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[9] The following provinces have recently established temporary or permanent economic advisory councils: Nova Scotia; New Brunswick; Quebec, Manitoba; British Columbia.

[10] *E.g.*, Brief of B.C., p. 36*ff*; Ex. 236, Edmonton Chamber of Commerce, p. 21; Ex. 387, Federation of Ontario Naturalists.

Chapter VI

PLAN II

The Commission has recommended that the Dominion should assume full responsibility for unemployed employables (and in certain eventualities, of relief to primary industries), and that the necessary jurisdictional changes should be made to enable the Dominion to fulfil this responsibility. It is desirable to examine whether this change would sufficiently relieve the provinces and municipalities of their financial difficulties without the transfer of tax revenues and debt burdens and the provision of adjustment grants as recommended in Plan I. For convenience this simpler arrangement may be styled Plan II. That is to say, Plan II is simply a continuation of the present system of financial arrangements between the Dominion and the provinces with the exception of the Dominion assumption of responsibility for the case of unemployed employables. Many variants to this proposal might be suggested, and some of them will be discussed later.

It is clear that the National Employment Commission, although strongly supporting (with the exception of Commissioner Sutherland) the transfer of responsibility for unemployment to the Dominion, felt that such action must be conditional on some type of compensatory financial adjustments. Mr. Purvis, the Chairman of the National Employment Commission, said in his letter of transmittal of January 26, 1938, to the Minister of Labour:—

> "As requested by you, the Commission has given consideration to the fact that the Royal Commission on Dominion-Provincial Relations is investigating certain questions which have also come within the purview of the National Employment Commission. For this reason the Commission has indicated in its Report where certain action would, in its view, be contingent upon such financial adjustments as may emerge from the Report of the Royal Commission on Dominion-Provincial Relations."[1]

The point is made more specifically in the National Employment Commission's recommendations on the appropriate allocation of jurisdiction and responsibility:—

> "The Commission recognizes that the approval of the Provinces to certain constitutional changes required in connection with the introduction of a nationally administered system of Unemployment Insurance and Employment Service has already been invited by the Dominion Government and that the Royal Commission on Dominion-Provincial Relations will presumably take into account any change in financial obligations involved in this step. This Commission also recognizes that the establishment of a national system of Unemployment Insurance would necessitate a supplementary system of Unemployment Aid to meet those phases of unemployment need which experience abroad has shown cannot be covered by Unemployment Insurance. Such a supplementary system of Unemployment Aid would, in its opinion and for reasons stated later, be best administered by the Dominion. This further step would necessitate determination by the Royal Commission on Dominion-Provincial Relations of the financial basis on which such a system should be established, and in the light of all relevant considerations, of the wisdom of further constitutional and financial changes. The National Employment Commission does not consider it to be within its competence to express an opinion on these changes, other than to record its considered judgment that if financial and constitutional considerations should permit, the co-ordination of a nationally administered system of Unemployment Insurance and Employment Offices, buttressed by a similarly administered system of Unemployment Aid, would have decisive advantages over the present system in coping with problems of employment and unemployment."[2]

In spite of the National Employment Commission's reservations, there has been some expression of opinion that the immediate assumption of unemployment relief responsibility by the Dominion both would be advantageous in itself, and, by lightening the burden on provincial and municipal governments, would satisfactorily solve the outstanding problems of public finance and Dominion-provincial relations. The reasons for the transfer of the responsibility of unemployment have been discussed at length. The problem which concerns this Commission is whether it would be practical to transfer the responsibility for unemployment alone, or whether the transfer of the liability must be combined with the other financial adjustments and reforms recommended by the Commission in Plan I to achieve the major benefits and economies which are expected and possible.

It should be said immediately that this Commission is convinced that the only satisfactory

[1] *Final Report of the National Employment Commission* (1938), p. 2.

[2] P. 28.

8336—9½

approach is along the lines proposed in Plan I, and that palliatives which would merely produce a temporary and superficial equilibrium would, at this stage in Canada's public finances, be short-sighted because in the long run they would invite disaster. Nevertheless, as Plan II (i.e., transfer of relief for unemployed employables) provides a larger immediate gain for some provincial and municipal governments than Plan I, and balances most provincial budgets and provides some with large surpluses, it requires careful examination. This examination will reveal that the advantages to a few governments which appear at first glance to exist do not in fact exist, and that Plan II will not pass the tests of equity in taxation and efficiency in government which Plan I has been designed to meet.

The immediate effect of Plan II on provincial and municipal budgets can be shown very simply, for the only change involved is the reduction of expenditures by the amount of relief to employables. The savings to combined provincial and municipal current account budgets from this, and the savings on capital account resulting from the elimination of relief works are estimated for the year 1937[4] in the above table.

The immediate gain to combined provincial and municipal budgets from Plan II is substantially greater than from Plan I in the case of Ontario, appreciably greater in the case of British Columbia, and slightly greater in the case of Manitoba. It is greater in Alberta if we assume continuation of current interest payments, but less by a somewhat larger amount if we assume full interest payments. This comparison is based, of course, on the assumption that existing provincial and municipal revenue structures are maintained. The gains to the provincial and municipal governments shown in Plan I, however, are calculated *after* the removal of provincial (and municipal) income, corporation, and inheritance taxes. Where these taxes are above the average, the gain to the provincial and municipal government under Plan II, as shown above, is at the expense of the provincial taxpayer. For example, British Columbia provincial and municipal governments would gain (1937 basis) $4,157,000, and would then have a net combined surplus on current account of $3,237,000—but only on the assumption that provincial and municipal taxpayers in British Columbia continued to pay much more than the national average of provincial taxation in relation to their income—in 1937, $5,914,000 more. In other words, the governmental gains to provinces and municipalities shown in the foregoing table

Provincial and Municipal Relief Expenditures on Unemployed Employables, 1937

—	Provincial		Municipal		Total	
	Current Account	Relief Works Charged to Capital Account	Current Account	Relief Works Charged to Capital Account	Current Account	Relief Works Charged to Capital Account
	$000	$000	$000	$000	$000	$000
Prince Edward Island	21	288	30	34	51	322
Nova Scotia	236	1,173	172	69	408	1,242
New Brunswick	28	614	74	15	102	629
Quebec	11,454	1,386	7,829	—	19,283	1,386
Ontario	8,347	5,252	5,209	100	13,556	5,352
Manitoba	2,584	320	2,050	407	4,634	727
Saskatchewan	9,776	—	500	—	10,276	—
Alberta	1,540	460	995	97	2,535	557
British Columbia	3,408	1,335	749	11	4,157	1,346
	37,394	10,828	17,608	733	55,002	11,561

Total Cost to Dominion after adjustments to common basis as shown in Table 30, Book III, $48,523,000.

[4] For details of the effect of Plan II in other years (1926, 1930, 1933, 1936-39), see Book III. The effects of Plan I for the same years are also set out in Book III, but direct comparisons are not possible for the reasons given in the text.

are not comparable with the gains shown under Plan I as a measure of benefit to provincial taxpayers, even before consideration is given to the increased Dominion taxes which Plan II would require.

With regard to Provincial budgets alone, Plan II (using 1936-39 averages as in the case of Plan I, and assuming maintenance of existing taxation) would provide Ontario with a large surplus, and Manitoba, Alberta, and British Columbia with appreciable surpluses.[5] The Maritime Provinces, Quebec and Saskatchewan would be left either in deficit, or with much smaller surpluses than provided in Plan I for expansion of services and reduction of taxation.

On analysis, however, the apparent advantages of Plan II to four provinces prove illusory. In the case of Plan I, the increased burden on the Dominion is offset in some measure by revenue sources transferred to it. Plan II provides for no such revenue transfer, and the increased burden on the Dominion would have to be met in its entirety by increased Dominion taxes, in competition with existing provincial taxes. (This would be modified to the extent to which provincial governments—notably Ontario—which were provided with substantial surpluses by Plan II might reduce taxation.) The net cost of Plan II to the Dominion (1937 basis) would be some $13 million a year greater than the net cost of Plan I, and this additional amount would have to be raised either by increasing already excessive indirect taxation, or by further invasion of direct taxation fields now occupied by the provinces. The effect of this on the economy as a whole, and also on some of the provinces which might appear to get greater benefits from Plan II than from Plan I, could be little short of disastrous. Ontario and British Columbia are, of course, the outstanding examples of the provinces whose governments would appear to gain, but whose residents would have to meet the major share of the increased Dominion taxation in addition to continuing to bear existing provincial and municipal taxation (although possibly at reduced rates). The Governments of Saskatchewan, Quebec, and the Maritimes would all gain less from Plan II than from Plan I, and in addition, their taxpayers, in common with all other Dominion taxpayers, would have to pay more. Of these, the taxpayers of Quebec would be the ones chiefly affected by the necessary increases in Dominion taxation.

[5] See Book III, Table 55.

To summarize, then, some provinces would appear to gain more under Plan II than under Plan I only if we ignore, in some cases, the heavier than average provincial taxation which their residents would have to continue to pay, and, in all cases, the increased Dominion taxes (with little likelihood of any offsetting removal of provincial taxes) which would have to be paid. The exact credit or debit balance of the residents of each province cannot be calculated, since we do not know to what forms and rates of taxation the Dominion would turn, and what the final incidence of these levies would be. But we do know that the increased taxation would have to come largely from the higher income areas and especially from the residents of the two provinces—Ontario and British Columbia—which at first glance appear to gain greater advantages from Plan II than from Plan I. Thus, although Plan II promises somewhat greater advantages to the *governments* of some provinces than does Plan I, it does not benefit the *residents* of those provinces equally with Plan I.

But of far greater importance than the gains or losses to any given province as between the two Plans (which cannot, in practice, be estimated precisely) are the differences in the probable effects of the two Plans upon the economy as a whole, on the national income, and on the future financial stability and independence of Canadian governments. The gains to provincial and local governments under Plan II can be shown in dollars and cents, but the cost of the Plan to Dominion and provincial taxpayers (who are the same individuals) cannot be measured. Nor can the more important but less tangible benefits to the national income inherent in Plan I be contrasted in statistical terms with the increased pressure on the national income which would be produced by Plan II. But it can scarcely be over-emphasized that these comparisons are basic, and should be decisive, and that the limited comparisons possible in statistical terms are, in themselves, misleading.

Plan I, as we have noted, is designed to stimulate the national income by making possible major taxation reforms which will shift burdens from business costs, marginal enterprises, and sub-par standards of living, to surpluses. Further, Plan I would make it possible to establish uniform and greatly simplified taxation schedules throughout Canada, removing obstacles to the free movement of capital and people. Plan I concentrates debt management and responsibility in one authority—the one with the widest credit base and the one in control of related powers. Plan I provides for

average Canadian standards of education and welfare, and generous developmental expenditures in every province, through National Adjustment Grants. And perhaps most important of all, Plan I makes possible the co-ordination of taxation, borrowing (or debt redemption), and expenditure policies throughout the business cycle with monetary and exchange, trade and tariff, industrial and employment policies.

Plan II promises none of these advantages. On the contrary, it would of necessity intensify the evils of the existing competitive scramble for revenues. It would lead to increasing friction between governmental units, increasing double taxation, increasing arbitrary, discriminatory, and confiscatory tax levies, increasing costs of tax compliance, increasing disparities in taxation burdens and government services between regions, and increasing disparities between burdens on and opportunities open to individuals. Plan II makes no provision for either direct or indirect economies in debt service, tax compliance, and tax administration costs, as does Plan I. Nor does Plan II provide facilities for co-ordinating the general public finance policy of the country with major economic policies in order to smooth the business cycle, promote recovery, aid depressed industries and areas, and generally strengthen the national economy. On the contrary Plan II would tend to increase the confusion and conflict between Dominion and provincial policies, and the sterility of policy, which now depress the Canadian national income. All these advantages of Plan I over Plan II apply with even greater force in the event of national emergency (e.g., war) which would force the Dominion to increase taxation in competition with existing provincial taxation,—conditions which without changes as recommended in Plan I will make impossible any major taxation reforms.

Our analysis in Book I shows that in the past financial "transfers"—in the wide sense of this term which covers all methods by which the people in one area are enriched, or freed from their obligations, at the expense of the people in other areas—have occurred at all levels of government. They have resulted from political pressures, confiscatory actions, sectional bankruptcies, favours and protection to selected industries and sporadic direct intervention by the Dominion Government. They have been made in an arbitrary, inequitable and wasteful manner, sometimes through and sometimes outside the public finance system. It is clearly impossible to prevent transfers of some sort from occurring. The point at issue, as between Plan I and Plan II is simply whether they will in future be made, as far as practicable, in accordance with objectively determined national standards as provided under Plan I, or continue as at present but on a larger scale which would be the effect of Plan II. As a method of bolstering the provincial and local finances of distressed areas the present methods are the most wasteful to the economy as a whole which could be conceived, and the cost falls in almost haphazard manner, and with unjustifiable and most inequitable incidence on some groups of the population. Nevertheless, the lack of flexibility and of powers of automatic adjustment and adaptability of our existing public finance system makes it necessary to adopt the methods of arbitrary transfer, whether it is done consciously or unconsciously. We include in the term "transfer" losses suffered by creditors outside the province. For example, when a province or a municipality defaults or reduces contractual interest payments, this is in effect a forced transfer from the investor to the debtor government. When a government provides for some form of private debt reduction or moratorium this is also a forced transfer from creditor to debtor, usually due in some measure to the failure of the public finance system in an emergency to provide adequate transfers through its own channels, and in some measure to efforts to maintain accepted standards of living and some degree of taxable capacity in the area. On other occasions Dominion, provincial, and even local governments have attempted to achieve the same ends by providing special subsidies, artificial prices and special protection for selected industries. National tariff, transportation, public works, monetary, and taxation policies have frequently been directed, both deliberately and unconsciously, to assist living standards and develop or maintain taxable capacity in particular areas. Under the pressure of necessity provincial taxation has frequently been devised to force transfers from "foreigners" in arbitrary and inequitable manner. Sometimes in the public finance system itself an emergency is met temporarily, and usually very unsatisfactorily, by inter-governmental loans—always difficult to collect, and fertile fields of friction. It should not be suggested that special regional consideration in the formulation of national policies, and other transfers of this nature, would not still be necessary and would not still occur under Plan I. But it would appear to be in the general interest to limit them as much as possible, as Plan I does, rather than to create conditions which will tend to increase them, as Plan II would.

All these apparently unrelated cases have one essential characteristic in common; they are devices and expedients to do expensively and unfairly what the public finance system might do in a large measure both economically and equitably. Each device imposes an excessive burden on the national economy. Each, and all together, fail to meet the public finance difficulties effectively. And each creates injustices and bitterness between individuals, classes, and regions which threaten Canadian national unity and spirit. Previous chapters have suggested that this is too high a price to pay simply to avoid the effort of reforming an obsolete fiscal system. It would be even more ruinous to increase this price deliberately by the adoption of Plan II. And it should be noted that while the Government of Ontario is the chief beneficiary under Plan II, the residents of Ontario would have to bear the brunt of the loss arising from continuation and extension of arbitrary transfers.

Possible Additional Provisions for Plan II.— Some additional provisions might be added to Plan II which at first sight present certain attractions. National Adjustment Grants and emergency grants, as proposed in Plan I, might be provided in addition to existing subsidies for those provinces unable to supply the Canadian average standard of services. This would involve setting up a Finance Commission to review such grants and recommend periodic adjustments. The task of such a Commission would be more difficult than that of the Commission proposed in Plan I since calculations of the burden of taxation in each province would be greatly complicated by the retention of income, corporation, and inheritance taxes, at widely varying rates, by the provinces. It would be almost impossible to determine that portion of those taxes which should be considered a burden on the province under review; that portion which was obtained in one way or another from residents of other provinces; and the amount which residents of any given province contributed through these channels to governments of other provinces. We have already noted that Plan II in its simplest form would cost the Dominion more than Plan I, and additional provisions such as the foregoing, unaccompanied by any compensatory transfers of revenue sources, would of course still further increase the cost.

Another provision might be the capitalization of existing statutory subsidies at the market rate for perpetual bonds, thus relieving provincial governments of an equivalent amount of debt. This proposal would secure a net saving equivalent to the spread between Dominion and provincial interest rates, and part of the technical advantages of the debt transfer proposal in Plan I, but none of the general advantages. To capitalize the subsidies at less than the market rate, as has been sometimes suggested, is simply a proposal for an all round proportionate increase in subsidies, regardless of special circumstances or proven need. It would increase some provincial surpluses, and would fail to meet the fiscal need of other provinces. As the existing subsidies no longer have any relation to provincial fiscal needs, a proportionate increase in them all lacks any justification and would not contribute to a solution of the difficulties. There would, in addition, be serious technical difficulties in assuming a part of provincial debt. Selection of the issues to be transferred, or creation of hybrid Dominion-provincial issues, or transfer over a period of time of individual maturities, would all be extremely complicated operations which would be difficult to carry out without giving rise to discrimination and inequity.

Detailed discussion of either of these proposals is unnecessary since both would intensify the major weakness of Plan II in comparison with Plan I. As Plan II makes no provision for transfer of the essentially national revenue sources, whatever benefits were provided provincial governments would have to be met entirely by increased Dominion taxation (or, in the case of the interest saving from capitalization of subsidies, by the Dominion's contingent liability for future exchange and interest rate fluctuations). Under the present division of taxation powers this would lead to more intensive competition from the Dominion with provincial governments in direct taxation, and probable extension of both Dominion and provincial consumption taxation. The evils of unequal taxation, double taxation, excessive administrative and tax compliance costs, and the restrictions on the use of the chief modern taxation instruments for social and economic purposes arising from divided jurisdiction in income, corporation and inheritance

taxation have already been discussed.[6] The burden of consumption taxation and of taxation on business costs has also been noted as one of Canada's serious economic handicaps;[7] it has grown to such proportions that it is now one of the prime factors restricting the employment of marginal resources and labour in Canada. Anything which will necessitate an increase in either of these uneconomic forms of taxation would be even more harmful.

Critical comparison of the two plans illustrates the basic importance of the tax recommendations of Plan I. Re-allocations of expenditures or increased subsidies may be proposed which would balance provincial budgets, but at the expense of an increased burden on the Canadian taxpayer, and increased pressure on the Canadian national income. Palliatives of this sort, however attractive superficially, are damaging and dangerous. The solution of Canadian public finance problems requires constructive action, based on the economic realities of the country, rather than further temporizing; it requires the development of a public finance system, which can follow appropriate and coherent policies integrated with other powerful national economic policies, rather than intensification of the present conflict at the expense of the prostrate taxpayer. And the primary and essential requisites are sweeping tax reforms combined with an orderly and business-like system of revenue transfers to the provinces as recommended in Plan I.

[6] This section, Chapter III.
[7] Book I, Chap. VIII.

Chapter VII

MUNICIPAL FINANCES

Although municipalities fall within the exclusive jurisdiction of the provinces, revenue powers and expenditure responsibilities have been delegated to them by the provincial governments which make their financial position an integral part of the whole provincial picture, and consequently, to that extent, of Dominion-provincial relations. The major functions of education, public welfare, and highway construction are shared, in varying proportions, by provinces and municipalities; the whole field of revenue powers left to the provinces is divided, on the average about equally between provinces and municipalities, although the proportions as between provinces vary greatly. The part played by municipalities in taxation (in 1937 municipalities raised 31 per cent of combined Canadian governmental revenues from all sources), and in expenditure makes it essential to consider them in any review of the Canadian public finance system. For this reason the Commission has considered jointly provincial-municipal revenues and expenditures wherever appropriate. The exclusive jurisdiction of the provincial governments over municipal affairs has, however, been recognized throughout, and the distribution of benefits arising from the Commission's recommendations in Plan I, although these benefits were calculated on the basis of the combined provincial-municipal position, is left entirely in the hands of the provincial governments.

Nevertheless, certain aspects of municipal organization and of municipal taxation and expenditure affect the financial position of the provinces and Dominion-provincial relations, and in this chapter they are discussed from these points of view.

1. The Background

At Confederation only rudimentary municipal organization existed outside of Ontario, and in spite of the hope of the Fathers of Confederation that local government would develop quickly in the other provinces and assume some of the burdens of the financially over-loaded provincial governments, growth, particularly in the Maritimes, was very slow. Consequently, from the very beginning there existed a great disparity between the different provinces in the proportionate distribution of provincial and municipal functions. As provincial revenues, on a per capita basis, were roughly equalized by the subsidy system initially adopted, variations in the weight of taxation, and in the government services provided, depended largely on the degree of municipal development. Because of the additional taxation involved, municipal development was opposed in Quebec and the Maritimes, while in Ontario well-developed municipal agencies imposed heavier taxation and took a commanding lead in educational and railway and road expenditures.

The Prairie Provinces established a checkerboard municipal system covering virtually the whole occupied area as rapidly as their settlement permitted; in British Columbia only one-half of 1 per cent of the area (containing 75 per cent of the population) has been municipally organized—a striking illustration of the localization of resources and the physical peculiarities of that province. Prince Edward Island, small in area and population, has required virtually no municipal machinery.

From these diverse circumstances, and accidents of time and place, the present heterogeneous collection of municipal systems arose.[1] The variations from the complex and overlapping multiplicity of units in Ontario and Quebec to the geometric, if not economic, regimentation of Prairie units, and the limited local developments in the Maritime Provinces and British Columbia, have important implications for provincial finances.

Even more important than the variations between provincial systems is the great and increasing spread between kinds of municipalities. Metropolitan centres, tiny hamlets, and sparsely populated rural areas are all known as municipalities. It is obvious that their problems must differ greatly in degree and in kind. We cannot, in fact, speak of *the* municipal problem; there are municipal problems characteristic of certain regions and of certain provincial systems, problems characteristic of certain types and classes of

[1] H. C. Goldenberg, *Municipal Finance in Canada* (mimeographed), pp. 11-25.

municipalities, and problems associated with individual municipalities in special circumstances. The particular revenue, expenditure, or debt factors which may be of dominating importance in one case may have little relevance in another, and sweeping generalizations are thus of very limited utility. In no field is local knowledge and responsibility more important for successful administration. This is an additional reason why the Commission in recommending National Adjustment Grants has not suggested any Dominion conditions or supervision governing the expenditure of these grants, or their division between provincial and municipal governments.

Nevertheless there are some developments which have affected all municipal governments, although in diverse ways and frequently in such a manner as to widen the existing differences. This is important, because to the extent to which a generalization can be made as to what is *the* municipal problem in Canada, it is that wide differences exist between municipalities in ability to support their responsibilities. Since Confederation local political units have been saddled with more and more economic functions, and have become less and less economic units.

Up to the end of the last century Canadian municipalities were, much more than now, the local units in the economy; their people were more on a subsistence, and, therefore, a self-sufficient basis; and the functions of municipal governments were local in the most direct sense of the term, largely arising in every case out of the particular circumstances and desires of the community. Municipal boundaries were more justifiable—each town was a clearly recognizable entity, and rural areas were more than now separate and distinct regions, each with a more highly developed local character. Trade was chiefly between the town and its rural hinterland. Industrial activity was not great and mass-production manufacturing was unknown. Industry was dispersed, and within each community small factories, mills and home handicraft provided most non-agricultural goods. There was a frontier to be pushed out by the discontented or those unable to prosper, as prosperity was then known, in their original area. Occupations required little training or education, and training for one was adequate for many others.

Both the local consciousness and the absence of marked economic differentiation or interdependence between local areas, as well as the relative simplicity of the whole economy, were conducive to the concept of a separate local government for each area; each looked after its own affairs and was not greatly interested in or affected by the affairs of others. Education, roads, maintenance of local law and order, care of the poor, elementary sanitary measures in towns, and the provision of a few communal facilities were, in such conditions, the natural functions of local government.* They were capable of being completely decentralized, and were roughly within the capacity of every local unit to provide. In any case, if inequalities existed, they were simply the result of differences in the ability and ambition and good fortune of the local inhabitants and the stage of development from pioneer days. Such inequalities were of little concern to the province as a whole because they involved services which did not affect the general interests of the province, but were, to a very large extent, of purely local importance.

With the growth of the economy, boundaries between local units became less justifiable, but for purposes of local organization they were not inappropriate prior to the advent of the motor car. The optimum rural area was presumably that traversable by horse in a day, and it did not matter if boundaries were arbitrary lines drawn in accordance with the system of land-surveying, as in the case of most Ontario townships, and of many rural municipalities of the Prairie Provinces. The primary economic functions of government were land settlement and development, and the encouragement of industry, all of which were undertaken by the senior governments of province and Dominion. Social services and economic activities played a small part in municipal government, and could in those days have been considerably extended without putting strain on the municipal structure. Education, largely a local responsibility, was still conceived of in very simple terms. The neighbourhood was both the political and economic unit, and was capable of taking care of its own affairs.

The neighbourhood,—the local area in which each inhabitant knows a large number of the others and is conscious of a considerable community of interest with them,—must always remain a unit of local government, outside of large cities, but economic and social conditions have so changed that the number of matters of peculiarly local concern is restricted, whereas the field of governmental activities is widening. New functions of

* Education was somewhat of an exception since in all English-speaking provinces school districts, at least in rural areas, were not coterminous with local government units.

government cannot be efficiently or fairly divided among a large number of small areas, and some of the old functions have become inappropriate to the municipal sphere.

The great expansion in foreign, interprovincial and inter-municipal trade, and the accompanying increase in economic specialization even among municipalities, have made the economic welfare of one unit dependent on that of others, to say nothing of the outside world. An entire city may be dependent on the production of motor cars, a whole rural municipality on one type of agriculture, whether it be tobacco, fruit, wheat or live stock. Over much of the country each unit is producing primarily for "export" to other units, if not abroad, and imports from others most of its requirements.

The development and widespread use of the motor vehicle have created a need for expensive highways, have enlarged the physical horizon, and have encouraged population movements both transient and permanent. All these factors have influenced trade, relative municipal development, economic differentiation, and the size of the area which can be described as suitable for local government. The trend of land values has in many cases been abruptly altered by the advent of the motor car; the development of cities at the expense of nearby towns, and of suburbs at the expense of cities, vitally affect municipal finance.

Industrialization, the greater complexity of all forms of economic activity, and advancing standards of every description, require an educational system which will give to the largest possible proportion of the people the best possible education. New knowledge with respect to the value of public health services, and the social cost of disease and crime and poverty, have increased the interest and activity of the state in matters of health and public welfare, working and living conditions and wage levels.

Such social and economic changes necessarily affect the nature and scope of municipal government and central government alike. The general tendency to leave the responsibility for conditions within its own area to each municipality, both administratively and financially, and to require new functions of government relating to economic conditions to be undertaken primarily by local government areas whose boundaries are less and less those of balanced economic communities, has created many difficulties and anomalies in the municipal structure. These may be classified under three heads.

In the first place, many local government units are no longer the appropriate areas for governmental purposes of any description. This is particularly true of large cities, and of many rural municipalities in the Prairie Provinces. The case of the metropolitan area is conspicuous. Many people in such areas work in one municipality and live and pay taxes in another. The idea of the municipality as a community of neighbours has been necessarily lost in large cities at least, and the required standard is that of an efficiency which cannot be achieved when five or ten separate governments operate in a single integrated urban area among people who are economically interdependent; nor can the maximum economic welfare of the whole be expected if there are a number of widely varying tax-rates, standards of education and health measures and the like. Likewise in rural areas, the motor car is in process of rendering obsolete old municipal boundaries based primarily on the cruising radius of the horse. The motor car has extended the possible physical area of rural municipalities beyond the maximum desirable from the point of view of maintaining the identity of the neighbourhood. The boundary of a "neighbourhood" is now limited, not primarily by distance but by the other factor, always important, the number of inhabitants. Particularly in Western Canada, where settlement is sparse, municipal areas require extension for purposes of efficiency and economy, and this can now be done without sacrificing the local character of municipal government. It is in the extension of boundaries and in the pooling of costs as between complementary areas that is to be found one of the remedies for the social service costs imposed by transiency on certain unfortunate municipalities.

Secondly, even with adjustment of areas, modern conditions render desirable a large measure of co-ordination between municipalities, in their own interests, with respect to a number of their functions. The police department of one town must take cognizance of a crime committed in another fifty miles away within an hour of its occurrence. With the large and continual movement of people from one area to another maintenance of health services in one municipality is vitally affected by conditions in another. Particularly in rural areas the bringing of hospitals and other necessary institutions up to modern standards is a matter of co-operation between the municipal units concerned, or between the municipalities and the provincial government.

Thirdly, in the case of a number of governmental functions requiring large expenditures

(some of which were originally purely matters of local concern and, therefore, the subject of municipal responsibility, and others of fairly modern origin or at least development) the long-run interest of the province conflicts with the existing system of requiring the separate municipalities to find the necessary moneys. This system results in unfair inequalities between municipalities, in failure to maintain uniformly the desirable provincial standards, and in severe strain on the finances of many municipal governments. Modern economic conditions have tended to increase differences which have always existed between municipalities in wealth and tax-paying capacity, and likewise in the expenditures necessary to fulfil certain functions. Very often the poorest municipalities require the greatest expenditures on the services in question. So far as such expenditures are forced on the municipality by provincial legislation, as in the case of some hospital aid and child welfare statutes, the situation is obviously inequitable. An extreme instance is unemployment where the degree of expenditure is affected by provincial or nation-wide conditions and by provincial or federal policy; the municipality in this case is unable to control the amount of the expenditures which it is forced to bear, and its capacity to pay is restricted by the same conditions which render the expenditures necessary.

With respect to matters of admittedly local concern it is obvious that wealthier municipalities always will be able to supply their inhabitants with better services than poorer ones. But it is equally obvious that great inequality among municipalities is inimical to the maintenance of any uniform or minimum provincial standards. Some matters which were once of merely local interest cease to be so because the increase in disparity of wealth prevents the maintenance of approximately uniform standards. Matters of more than local interest should not and cannot be left to a major degree in the field of municipal government. In so far as they remain a municipal obligation the interests of the province as a whole are injured by the sheer inability of some municipalities to raise the same revenue as others either in proportion to population or to the amount of expenditure required, as well as by obstacles to provincial uniformity arising from the deliberate adoption by a municipality of a lower standard than that desired as a matter of provincial policy.

From what has been said it is clear that aggregate municipal figures are of very limited use in analysis of the problems, since the totals conceal the very disparities which create the chief difficulties and inequities. Valid comparisons could only be made and valid generalizations reached after each municipality had been considered separately, in the light of its own particular circumstances. Yardsticks and tests which are applicable to one may be completely irrelevant or misleading when applied to another. A municipality dependent on a single industry differs fundamentally from another of the same size engaged in more diversified economic activities. A Prairie city dependent upon agricultural conditions cannot be compared with an average industrial city in Ontario or Quebec, nor a pioneer community with a mature one. The greatest obstacle, however, is the dearth of statistics, and the lack of uniformity in those available. In some provinces current and capital items in municipal accounts are not distinguished in so far as their statistical presentation is concerned; in others, statements of aggregate municipal finances combine statements compiled on the accrual basis with others on the cash basis. An analytical breakdown is generally lacking, and relatively large amounts are commonly lumped together as "miscellaneous". It is even frequently impossible to distinguish between debt interest and debt retirement payments. The local government of any given area may be in the hands of several bodies[2]—say a village council, a township council, a county council, a school board, a health board, a public utility board, etc., with different boundaries, different fiscal periods, and different systems of accounting, and to disentangle the affairs of these overlapping bodies and secure any consolidated statement of their financial operations and position is well-nigh impossible. Furthermore, what statistics are available in most of the provinces relate only to very recent years. A historical study of municipal finance in general is, therefore, almost impossible. While some of the more recent reports of the provincial departments of Municipal Affairs are more satisfactory, the need for a greater degree of co-ordination and co-operation between provincial and municipal governments with respect to municipal finance statistics remains urgent.

In spite of these serious deficiencies in the material available, and the limitations of the use which can be made of the product, the Commission has attempted to compile statistics on a comparable basis for every province, classified in a manner

[2] There are in Canada some 27,259 local councils and boards with a combined membership of about 125,000 persons, paid and unpaid. Ex. 267, Brief of the Citizens' Research Institute of Canada, p. 8.

complementary to the Dominion and provincial accounts.[3] Instead of the customary classification by cities, towns, villages, and rural municipalities, which is of little value for purposes of analysis owing in part to the great variations in provincial definitions of the units, a new and more significant grouping has been employed—Metropolitan areas, other urban, and rural. "Metropolitan areas" (Montreal, Toronto, Winnipeg, Vancouver, and Windsor)[5] consist of the major cities and their immediately surrounding and dependent towns, villages, and suburban townships. "Other urban" includes all other cities, towns, and villages, in general of more than 500 inhabitants, and "rural" all remaining municipal organizations, although the division between "other urban" and "rural" is in some cases only approximate. The selected metropolitan areas account for something more than two-fifths of all municipal revenues and expenditures, the other urban units for something less than two-fifths, and the rural units for one-fifth.

For details of the methods used by the Commission and the qualifications which should be noted before use is made of the statistics the reader is referred to the Introduction to the Municipal Section in Book III.

[3] This task would have been impossible without the able and willing assistance of Mr. Joseph Howes of the Citizens' Research Institute.

[5] There are several cities—Quebec, Ottawa, Hamilton—larger than Windsor, but they have not the distinctive metropolitan characteristics and problems of Windsor. Greater Ottawa, including Hull, might be considered a metropolitan area, but this was not practical for our present purposes owing to the provincial division of the area.

2. Municipal Functions

Municipal expenditures for 1937 are summarized in the following table, and details are given for selected years in the Municipal Section of Book III.

MUNICIPAL EXPENDITURES, 1937

—	Metropolitan	Other Urban	Rural	Total
	(Millions of Dollars)			
Net debt service (excluding retirements)	32	19	4	55
Education (net, after provincial grants)	28	30	18	76
Public Welfare, including relief	28	18	7	53
Streets and roads (net, after provincial grants)	7	11	13	31
General Government, and all other expenditure)	31	24	12	67
	126	***102***	***54***	***282***
Debt retirement	15	12	2	29
	141	**114**	**56**	**311**

Education and Public Welfare.—These two major municipal functions have certain important characteristics in common, and for our present purposes can be conveniently discussed together. Education accounts for 33 per cent of municipal current expenditures excluding debt charges, and welfare services for 23 per cent.* It is evident that these services will bear the full impact of wide differences in taxable capacity which may exist between different municipal units, and that great differences in ability to support these services on the scale needed today will have very serious consequences.

The great variations which exist in the ability of municipalities to support these services arise in part from the failure to make the municipal unit conform to the changing economy and coincide with an economic unit; in part from the very uneven distribution of taxable income and wealth which has accompanied the development of a nationally integrated economy with a high degree of specialization; and in part from the great expansion and changed nature of the demands made on these services.

The most striking examples of the failure of the political municipal unit to conform to the local economic unit are the component municipalities of the metropolitan areas, and the rural units designed in horse and buggy days. A metropolitan area will normally contain some very wealthy residential suburbs organized as separate municipalities, and some very poor dormitory suburbs; some units that are mainly industrial; some that are commercial; and some "twilight" zones of obsolete residential property. These units may be all parts of one economic organization but there will obviously be the greatest extremes of difference in their financial ability to supply their residents with services. Property assessment per pupil, for example, sometimes differs as much as ten to one. Equally wide differences may exist between adjoining rural municipalities arbitrarily laid out and of exactly the same area, but very different in resources and other economic advantages.

Many of the differences, however, are not due merely to the failure to make political boundaries conform to the appropriate economic unit. One of the prices paid for the higher national income and standards of living achieved since Confederation has been the virtual disappearance, or great reduction in importance, of the small local economic unit. It has been absorbed in the nation-wide, and world-wide, organization of business. There is no longer any necessary or even likely relation between the wealth a municipality produces and local property values and service requirements. Yet responsibilities have been delegated to municipal governments which are justifiable only on the assumption that the local political unit will also be an economic unit with a per capita income not far removed from the provincial average.

But while the differences between taxable capacity of local political units have been increasing, as a natural corollary of the type of economic development which Canada has experienced, the relative cost of education and welfare services, and the need for approximate uniformity in the standards of services provided, have also been increasing. The complex and mechanical modern society is a machine which can produce much more wealth than the self-sufficient units of former days, but it requires a highly trained and well-informed public to run it successfully. If full advantage is to be taken of modern productive facilities, more intensive and longer periods of general education are required; more subjects must be taught; more equipment and more trained specialists are needed; and special and often extensive instruction must also be provided for the various grades of subnormal intelligence which in earlier societies it was safe to leave uneducated. There are similar increases in the need for welfare services arising from the loss of the former degree of family self-sufficiency, the abrupt fluctuations which are characteristic of our present economy, and advances in medical and related sciences. In the cases of both education and welfare, the concentration of population in the cities has made possible the provision of higher standards but has also multiplied costs.

* These percentages are perhaps an understatement for the English-speaking provinces in view of the services rendered by the Church in Quebec.

These developments have been discussed in detail in our historical review in Book I as aspects of the evolution of the economy which are of basic significance to Canadian public finance and the federal system. We are here concerned only with noting the impact of these changes on municipal institutions, and in particular the extent to which approximate uniformity in ability to provide the basic social services has ceased to be a valid assumption.

Streets and Roads.—A significant contrast exists between the trend of development of municipal welfare and education services, and that of the other chief municipal function—the provision of streets and roads. The development of the automobile made necessary entirely new types of both urban and rural roads, on a hitherto unprecedented scale, and was an important factor in shifting population to outlying suburban areas. The municipalities were thus faced with almost immediate necessity of making a tremendous capital investment, that was bound to cause in many cases a reduction in property values through shifts in population which it would facilitate. Extensive programs for reconstruction of urban streets which were launched in the immediate pre-War years were of necessity stranded during the War, but were afterwards carried to completion in a surprisingly short period of time. By the middle twenties virtually all the urban municipalities had rebuilt their streets, and made the necessary attendant changes in sewers, sidewalks and street lighting facilities to meet the new demands. It is true that some of this investment is already obsolete owing to the continued growth in automobile traffic, and that expensive express and overhead arterial roads will have to be cut through congested areas, but the accomplishment of the urban municipalities in equipping themselves with relatively modern and complete facilities in such a short period of time remains a notable one.

It was clear from the first that a satisfactory network of rural roads could not be planned, financed, and built by the rural municipalities. As a result, provincial governments stepped in and progressively assumed an increasing proportion of the capital and upkeep expenditure, although the degree and method of participation varied widely. Possibly because the variations in road standards provided by poor and rich municipalities were more directly evident than equally important variations in welfare and education services, and because the need arose more suddenly and strikingly, and because there were pressure groups more directly interested and better organized, the logic of pooling resources in the common interest was brought home more rapidly. Urban municipalities did not benefit equally from provincial assistance, although provincial governments have in many cases assumed the expense of the costly main highway approaches to the larger centres, and there are important indirect benefits from the lower transportation charges and enlarged market afforded by the provincial highways. Nevertheless, it would appear that since the advent of the automobile, urban municipal taxpayers have borne a particularly heavy burden for the provision of modern streets and roads. The bulk of the capital borrowing for this purpose was on a ten to fifteen year basis, with relatively high and progressively increasing amortization charges, and as a result those municipalities which have been able to maintain their debt retirement schedules are now extinguishing their remaining road debts very rapidly. This factor largely explains the buoyant position of Ontario municipal finances in particular,[6] although it may well be charged that the rapid equipment of the urban areas, and their present strong financial position, have been achieved by something in the nature of a discriminatory capital levy on real estate owners, for the taxes may not cease when the roads are paid for but may be continued for other purposes.

It has not been attempted to do more in this review than to note the effect of the changes in basic conditions on the ability of municipalities to carry out their traditional functions. These functions have grown more costly and more complex as a natural correlative of the development of the economy; the economic basis of the municipality which determines its ability to perform these functions has meanwhile grown more narrow and vulnerable; as a result the traditional administrative unit is today too small and limited to perform these functions efficiently or distribute their costs equitably. We have noted the extent to which provincial governments have recognized this fact in the provision of streets and roads, and the extent to which it has been neglected in the provision of welfare and education services.

Appropriate adjustment of municipal administrative units to modern conditions, and greater equalization of the chief municipal burdens, are, of course, entirely a matter of provincial jurisdiction and discretion. Plan I, however, by putting all provincial governments in improved and more stable financial positions, makes possible reorganization and reforms along lines which would remove important sources of some differences and inequities which threaten national unity and welfare today.

[6] Estimated municipal debt for streets, roads, and bridges in Ontario fell from $183 million in 1930 to $149 million in 1936, and has since declined at an even more rapid rate.

3. Municipal Revenues

Municipal revenues for 1937 are summarized in the following table, and details are given for selected years in Part 3 of Book III:—

MUNICIPAL REVENUES, 1937

—	Metro-politan	Other Urban	Rural	Total
	(Millions of Dollars)			
Real Property Taxes	102	91	52	245
Sales and Income Taxes	6	*	*	6
Other Taxes (1)	8	11	1	20
Licences, Permits, Fees	5	4	1	10
Public Utility Contributions	2	4	*	6
Other Current Revenue (2)	10	6	5	21
	133	**116**	**59**	**308**
Provincial Government Grants (3)	*4*	*6*	*9*	*19*

(1) Chiefly business taxes, and also (in the Maritimes) personal property taxes.

(2) Rentals from municipal property, interest and penalties on tax arrears, and miscellaneous income of all kinds, some of which should probably be credited to capital account.

(3) Not included in revenue totals but deducted from appropriate expenditures in the table on p. 142.

Of the total, which was 31 per cent of the revenues of all governments in Canada in 1937, 80 per cent is derived from real property taxation. The real property tax is at once the largest single tax in Canada and, for the reasons briefly discussed in the foregoing sections, one that is called on to meet functions the cost of which varies tremendously between local units of government. As a result we find many instances in which this tax (which for the bulk of the population is the heaviest paid in the course of the year) is twice as much in relation to property income for residents of some areas as for those other areas in the same province. There are extreme instances in which it is several times as much and striking contrasts can be found between immediately adjoining areas. Examples are numerous and well-known, and many were given in evidence before the Commission,[7] where the tax amounted to practical confiscation, or to a forced and inequitable capital levy, and where it forced the abandonment or destruction of property. More difficult to establish and illustrate, but perhaps of even greater general importance, is the effect of the pressure of the tax on individuals and business enterprises in marginal positions throughout Canada, and particularly in depressed areas.

[7] *E.g.*, Ex. 9, Winnipeg Real Estate Board; Ex. 98, Ont. Assoc. Real Estate Boards.

Taxation of Real Estate

It is very generally maintained that property taxation as a whole is too high.[8] This general proposition is based sometimes on one, sometimes on another set of circumstances. People have, for instance, been ejected from their homes because they were unable to pay the taxes. Here the proposition would mean either that incomes are too low or alternatively that, where low incomes prevail, it is wrong to impose a tax on a necessity of life such as shelter. Others have found that property which has ceased to yield an appreciable income is still subjected to heavy taxation. This situation has led to the surrender of property to the taxing authority and in other cases to the demolition of buildings which cannot command rents in keeping with their assessments. In this case it may be rather the method of assessment than the property tax itself which is at fault. Others complain that the income from real property is more heavily taxed than income from other investments. In one sense this is true, but it must be remembered that a property tax, once imposed, tends to be capitalized so that the value of the property is reduced once for all by the capitalized value of the tax, just as it would have been reduced had it been subjected to a mortgage of equal amount. Any subsequent purchaser pays the reduced price and presumably gets the same net return on his investment as if he made alternative investments. The initial act of confiscation may be deplored. It cannot be redressed years later without the unjustifiable enrichment of subsequent purchasers of the property.

[8] The following briefs complain of unduly burdensome or inequitable taxation of real estate:
Ex. 7, Brief of Manitoba, Pt. VII; Ex. 8, Brief of Manitoba, Pt. VIII; Ex. 9, Winnipeg Real Estate Board; Ex. 17, Winnipeg Board of Trade; Ex. 18, The Union of Manitoba Municipalities; Ex. 19, The City of Winnipeg; Ex. 21, Rural Municipality of St. James, Manitoba; Ex. 24, School District of Winnipeg, No. 1; Ex. 25, Manitoba School Trustees' Association; Ex. 28, The Greater Winnipeg Youth Council; Ex. 31,The Home and Property Owners Association of Winnipeg; Ex. 34, Brief of Saskatchewan; Ex. 49, Saskatchewan Urban Municipalities Association; Ex. 66, Regina Board of Trade; Ex. 67, Saskatoon Board of Trade; Ex. 98, Ontario Association of Real Estate Boards; Ex. 113, Canadian Federation of Mayors and Municipalities; Ex. 172, Brief of British Columbia; Ex. 181, Municipalities of British Columbia; Ex. 182, City of Vancouver; Ex. 183, British Columbia School Trustees' Association; Ex. 199, Vancouver Real Estate Exchange; Ex. 206, Provincial Council of Women, British Columbia; Ex. 236, Edmonton Chamber of Commerce; Ex. 238, Cities of Alberta; Ex. 248, Taxpayers' Protective Association of Edmonton; Ex. 249, Calgary Board of Trade; Ex. 255, The United Farmers of Alberta; Ex. 267, Citizens' Research Institute of Canada; Ex. 268, Board of Trade of the City of Toronto; Ex. 281, Ontario Municipal Association; Ex. 282, National Construction Council; Ex. 284, The City of Toronto and Ontario Mayors' Association; Ex. 285, Property Owners' Association of Toronto; Ex. 286, East York Business Men's Association; Ex. 288, Home Builders' Association of Toronto; Ex. 297, Brief of Ontario, Pt. II; Ex. 367, City of Saint John; Ex. 394, The Canadian Chamber of Commerce; Ex. 400, The Roman Catholic Separate School Trustees' Association of Ontario. See *per contra* Ex. 105, Brief of The Single Tax Association of Canada.

In still another sense taxation on real property may be said to be too high. A municipality to function adequately requires a certain revenue. It may be impracticable to obtain this revenue by taxing land and improvements if a point is reached at which an increase in the rate of the tax would not produce an increase in its yield. Or it might be highly unjust to continue to tax land because in so doing revenue would be raised by imposing an undue burden on one group in the community while imposing no proportionate burden on other groups. The fact, already noticed, that the real property tax tends to be capitalized is a matter of aggravation in respect of this inequity whenever what is under consideration is not the continuance of high rates of long-standing but a further increase in the rates. Many large municipalities which press for financial relief fully realize that if this relief were extended to all municipalities any tax by which it was financed (whether Dominion or provincial) would take more from their citizens than the municipality itself would receive. Here the essence of the complaint is that the municipality has been required to finance costly services without being given adequate powers of taxation. The remedy would lie either in decreasing the demands made on the municipality or in supplementing its revenue by some form of provincial grants-in-aid. For these various reasons the cry arises on all sides that the taxation of real property is too high, but this is an opinion which cannot in most cases be proved or disproved by any objectively determined scientific criteria.

It is argued that the failure of the construction industry to make any substantial recovery is evidence that real property taxation as a whole is excessive, and that a reduction in rates would divert the marginal consumer's dollar into better housing instead of into alternative, and possibly less socially useful, channels. And it is charged that a tax of such a rigid nature as the Canadian real property tax is particularly unsuited for a country such as Canada, already burdened by a high fixed overhead which has to be supported by a sharply fluctuating income, and that the heavier the tax, the more vicious and undesirable its effects. Unquestionably in many areas the tax was established at a high rate during a period of rapidly rising land values, and was deliberately intended to contain some element of the "single" tax, or of a capital gains tax; the justification for this naturally disappears once the trend of land values flattens out or drops sharply.

The Commission believes that there is great weight in these general contentions even when they cannot be statistically established, or related to other than hypothetical alternatives. In this connection the benefit to municipalities of the Commission's recommendations in Plan I should be noted. On the 1937 base they would provide a net saving to municipalities of some $20 million, or 8 per cent of the real property tax. This saving, of course, would not be evenly spread, but largely concentrated in the chief distressed areas.

But although no positive finding can be made on the abstract contention that real property taxes are too high, particularly in the absence of proposals for compensatory alternatives, certain gross inequities which now exist can be specifically noted. They are, chiefly, different levels of taxation (to support the same functions) in different municipalities; and great variations in taxation, as a percentage of income, even in the same municipality.

The different levels of taxation in different municipalities arise from the performance of similar functions with very different means. The remedy, as has been suggested in the previous section, is the reorganization of municipal units more in conformity with modern economic conditions. In addition certain services might be pooled (whether through the provincial government or among a group of municipalities) so as to redistribute the cost of services in relation to capacity to pay.

The variations in taxation, as a percentage of income, between individuals in the same municipality result from the assessment of taxation on an assumed capital value of real property rather than on income. Although the assessed capitalization is supposed to be closely related to, or specifically based on, earning power, it is in many cases not so in fact owing to faulty assessments, unrecognized changes in earning power, or inability to rent a property at all. The first of these defects may be due to lack of competent assessors; the second, to lack of sufficiently frequent re-assessments and facilities for appeal; the third is inherent in the present system of taxation. To correct the inequity of taxing an individual on the capitalized value of an income which he cannot make would not require as drastic a change as putting all property taxation on an income basis. (Even in the countries frequently cited as examples of a more equitable system of property taxation on an income basis there is a large element of arbitrary valuation.)

It would appear that a rough adjustment of this particular inequity could be achieved if allowance were made for a rebate of a portion of the tax applying to improvements (although not to the land) when it was established that it had not been possible to rent the property on reasonable terms during, say, six or nine months of the year.* The property should in any case be taxed sufficiently to cover the cost of services rendered to it. To the contention that such a provision would reduce the stability of municipal revenues it could be replied that under conditions in which the operation of such a provision would be of any importance, the revenues under the present system are only superficially stable, bolstered up by uncollectable tax arrears,[11] and that it is grossly unfair virtually to confiscate the property of those who have already been the chief sufferers from adverse rental conditions.

Tax Exempt Crown Property

It was also complained to the Commission[12] that it was unjust to exempt Crown property from taxation when that property was being used for some normal commercial purpose, such as electric power distribution, and would, if in private hands, be taxable; or when it was being used in a profit-making commercial enterprise, such as a provincial liquor store. The Commission suggests that such property should be subject to taxation on the same terms as that of private enterprises.

A somewhat different problem is presented by Crown property which is not being used for any commercial purpose, but which involves the municipality in considerable expense.* This is especially the case with respect to military property. On the other hand, the municipality frequently benefits substantially from the presence of the Crown property such as post offices and legislative buildings. The Commission can make recommendations only in very general terms. The Commission recommends that the senior governments should make payments *ex gratia* in place of taxation in respect of all property (other than commercial enterprises which should be assessed and taxed on the same basis as private property) held by them in municipalities, but that the amount of these payments should depend on the nature of the property and the extent to which it benefits from municipal services. It may even be expedient for both senior governments to lay down some general principles to govern these payments and to employ arbitrators to apply them to individual properties in the event of being unable to reach an agreement with the municipality. The principle is clear that the burden of providing services for government properties should be spread widely by federal or provincial taxation, as the case may be, and not charged against neighbouring properties. But the amount of the payment appropriate in each case will depend on a number of circumstances, of which the assessable value of the property may not be one.

* The Ontario Assessment Act, c. 272, s. 125, makes a certain vacancy allowance on property which is not rented.

[11] Municipal tax arrears rose $78 million between 1930 and 1935.

[12] Ex. 52, Sask. Assoc. Rural Municipalities; Ex. 109, Can. Electrical Assoc.; Ex. 154, Union of N.S. Municipalities; Ex. 158, City of Halifax; Ex. 159, Halifax Board of Trade; Ex. 181, Municipalities of B.C.; Ex. 267, Citizens' Research Institute; Ex. 281, Ont. Municipal Assoc.; Ex. 285, Toronto Property Owners Assoc.; Ex. 343, Chambre de Commerce de Montreal; Ex. 394, Can. Chamber of Commerce.

* *E.g.*, Halifax and Esquimalt. It was declared in evidence to the Commission (p. 5289) that in the latter city out of $9,790,000 for improvements, $8,212,000 was tax-exempt.

4. Municipal Debts

Municipal debts are on the whole more closely related to municipal capacity to bear them than are the chief municipal functions. A poor municipality may incur just as great costs per capita as (or even larger costs than) a rich one in providing education, for example, but it is extremely unlikely to have as heavy debt charges, simply because it could not in the past have borrowed as much money. On the other hand, it is true that a poor municipality may have to forgo desirable capital works and improvements because of its poor credit standing.

In general, municipal indebtedness is closely related to the corresponding asset, and, ideally, is amortized within the life of the asset. But wide latitude is frequently given to estimates of the life of the assets. In recent years particularly, the funding of general deficits (largely caused by relief expenditures) has obscured this relation somewhat, but the contrast with the general debt of the senior governments remains notable. (It is interesting to note that most provinces originally also earmarked their borrowings for specific purposes, and undertook to amortize them accordingly, but as time went on, and as through refundings and funding of general deficits the debts became increasingly confused and indistinguishable, even nominal adherence to this practice was discarded.) Outstanding municipal debt in 1937 may be classed roughly as follows:—

MUNICIPAL DEBTS, 1937

—	Metropolitan	Other Urban	Rural	Total
	(Millions of Dollars)			
Schools	115	87	15	217
Roads, streets and bridges	189	130	27	346
Other general	317	144	12	473
Gross general	*621*	*361*	*54*	*1,036*
Less sinking funds	106	71	5	182
Net general	515	290	49	854
Utility—net	143	99	15	257
Guaranteed—net	45	1	—	46
Bank loans	52	36	24	112
Total, net	755	426	88	1,269

With a few notable exceptions municipal debts, in contrast with Dominion and provincial debts, have not increased since 1930. Severe retrenchment has been necessary in a number of cases, and although relief costs have been a heavy burden for some centres, five-sixths of the total cost has been met by senior governments. The cities with a considerable increase in debt since 1930 are those in which unemployment has been concentrated, and where the cost of even 20 to 30 per cent of total relief expenditures threw municipal budgets badly out of balance. Even in these cases, however, there have been some reductions in net debt since 1934, particularly in Ontario.

On the other hand, debt charges have increased somewhat for nearly all urban areas and notably those with large relief borrowings. This is largely due to increased amortization charges on relief and deficit financing. Interest charges, as distinct from total debt charges, have tended to decline, since municipalities in a strong financial position have been able to refund on favourable terms, and municipalities in a weak position have had to reduce their borrowings rigorously. Admittedly, such a reduction may be a very undesirable one, if it enforces curtailment of socially necessary or desirable expenditures, simply because an obsolete division of municipal units throws crushing responsibilities on some area unsuited to bear them. On the other hand, it may be a healthy check to extravagance or to optimism which the events of the depression have shown to be excessive. But there is marked inequity in a system which imposes the highest borrowing costs, and rigid restriction of borrowing, or even total prohibition, on the haphazardly delimited local areas which are normally the poorest, or have been the hardest hit, as a result of cyclical developments and national policies beyond their control.

The hardest hit municipalities were forced into default, and it is illuminating to analyse the factors responsible for these extreme examples of breakdown. These examples may properly be called extreme since the effort made by most Canadian municipalities to honour their obligations, at the expense of drastic reduction in desirable services, is striking. Generally speaking, defaults occurred only under intolerable strain and pressure. Roughly classified, defaults occurred in*:—

(*a*) working-class dormitory suburbs—i.e., the poorer residential districts—of metropolitan areas;

(*b*) one-industry towns, in which the one industry was closed down by the depression;

(*c*) rural, and dependent urban, units where the whole area had been overwhelmed by natural disaster, such as the Western drought.

* Defaults by derelict towns resulting from miscalculation as to the economic future have, of course, occurred in many regions throughout Canadian history.

Examples in the first class are but further evidence of the chaotic condition of municipal organization in Canadian metropolitan areas. Large blocks of poorer class residential areas which were arbitrarily segregated into separate municipalities, whose inhabitants were particularly hard hit by the depression, and whose local relief and welfare services increased correspondingly, were inevitably saddled with an inequitable and frequently overwhelming share of depression burdens. At the same time neighbouring municipalities, which were part of the same economic unit but which harboured a more fortunate or sheltered group, had no increased responsibilities to face, and were able to take advantage of depression conditions to reduce costs and cultivate a smugly superior attitude to their less fortunate neighbours. The other classifications, which taken together account for only a small portion of the defaults, are simply among the minor routine casualties of modern hit-and-run society, but even in their cases organization of the local administrative units more in conformity with modern economic conditions, and more even spreading of the risks, would have reduced the casualties.

Consideration of municipal defaults must include the constitutional questions of whether provinces, by virtue of their exclusive power to legislate concerning municipalities, may legislate with respect to insolvent municipalities and of whether they may deal with the bonded indebtedness of a municipality which is not insolvent. Whatever the answers, it is obvious that a province could, by valid legislation, make it difficult or impossible for the creditors of a municipality, whether solvent or insolvent, to collect their debts. Nor would it have any difficulty in turning a solvent municipality into an insolvent municipality if this were a necessary condition for securing jurisdiction over its affairs. The Commission thinks that in such matters the jurisdiction should be clear and the responsibilities precise, and it recommends that if the British North America Act is amended, provinces should be given specific power to legislate in respect to municipal debt whether or not the municipality concerned is solvent.

In this respect the Province of Quebec stands in a special position. If Plan I is implemented, the Dominion will have to assume a portion of the municipal debt of that Province. The distribution of the benefits to the municipalities would, of course, be within the discretion of the Province, but presumably it would wish to deal with the debt situation in the metropolitan area of Montreal. This might require legislation dealing with the debt of municipal units of very different credit standing, and it would be essential that the Province should have adequate legislative power to deal with the situation effectively.

Provincial Supervision of Municipal Borrowing

The degree of provincial responsibility for the conduct of a municipality's affairs is variously interpreted. But it would seem clear that when the provincial government creates a subsidiary body, and delegates to it certain revenue powers and responsibilities, it should see to it not only that these powers are adequate, with efficient management, to match the responsibilities, but also that there is efficient management. This obligation would appear to be particularly important for individuals who loan money to the municipality on the obvious assumption that the provincial government will not establish conditions, or permit conditions to develop, which may make its repayment impossible. Indeed, there is an even stronger case for a province to stand behind the credit of the local government bodies which it has created than for the Dominion to stand behind the credit of the provinces as has been recommended in Plan I. In addition to providing for an approximate matching of revenues and responsibilities (and, as suggested in the previous sections, a substantial measure of pooling of resources and averaging of expenditures to remove the wide existing differentials) the province should supervise adequately municipal borrowing. Supervision of borrowing would ideally include not only an examination of the purpose and immediate need for the borrowing, but also determination of the best form and terms of the borrowing, and continuing regulation of sinking funds, or repayment, provisions. Some or all of these forms of control are now exercised, although with widely varying degrees of strictness, by each province. If a municipality's borrowings are excessive it may be because the province has saddled it with greater responsibilities than revenue powers, or because the municipality's affairs are being incompetently handled, or because the municipality's growth has been checked by unfavourable, and possibly unforeseeable, circumstances. In any case the province has a responsibility, both to creditors and prospective creditors of the municipality, and to taxpayers and recipients of services in the municipality. This responsibility can be exercised to some extent by close supervision of municipal borrowing, and of municipal budgeting, accounting, and administrative practices; perhaps even more importantly, by providing conditions under which a municipal civil service—adequately paid, professionally trained, and politically independent—can develop.

If provincial governments supervise municipal borrowing closely and enforce efficient administrative practices, municipal credit should quickly reflect the increased measure of security. Indeed, under these conditions (and assuming an equitable division of revenue powers and expenditure responsibilities) the credit of a municipality should be as good as that of a province. In addition, municipalities, as a result of their practice of earmarking their borrowings and relating their debts to specific assets, normally pursue conservative debt retirement programs—always an attraction for the investor. However, there may be circumstances under which a province will wish to assume municipal indebtedness, either by refunding debts or by guaranteeing them. It may, for instance, feel that its municipalities are not receiving the credit rating to which they are entitled; or that some of them have been unduly burdened in the past by obligations which the province itself would have met if it had had the means to do so; or that certain municipal amalgamations are desirable and that an advantageous debt settlement is a necessary preliminary. In such cases a province would, if Plan I were implemented, have two courses open to it. It might employ the sole credit of the province, in which case it could not count the obligations which it assumed in making an estimate of its fiscal need when seeking an enlargement of its National Adjustment Grant; or it might endeavour to carry out the refunding through the machinery recommended under Plan I. In the latter case the debt would have to be approved by the appropriate body which (as has been explained in an earlier chapter) would consider all the circumstances, including the credit of the Federal Government and its ability to guarantee the debt. If approved the debt would become an obligation of the central debt agency, but the municipality or municipalities concerned would have undertaken to reimburse the agency for the debt charges and would, presumably, have been required to assign revenues for this purpose. In addition the province would have underwritten the debt. If refunding of this character were resorted to, it would lie with the province to decide whether the heroic debt retirement provisions which appeal to private investors should be adopted or whether they should be modified so that the municipality, with its debt charges substantially reduced, might be in a position to finance future capital expenditures on a pay-as-you-go basis with economy to its taxpayers.

In Conclusion

Local and municipal institutions fall under the exclusive jurisdiction of the province, and the Commission has, therefore, refrained from making specific recommendations with respect to municipal reform, except where the problem falls within Dominion-provincial relations. The Commission has sought rather to outline the problems which must be faced, assuming that municipal reform will sooner or later be undertaken by the provinces. It should be noted that, if the Dominion assumes responsibility for unemployed employables and if the Commission's financial recommendations are implemented, not only will the municipalities derive direct benefits, but the provinces will be in a much better financial position to attack the problem of municipal reform than heretofore.

The Chapter discusses some of the more fundamental problems which must be faced if municipal financing is to be efficient and municipal taxpayers are to be equitably served. It has pointed out that the size of the municipal unit in metropolitan and rural areas is, in very many cases, no longer economic or in keeping with administrative efficiency; that local needs no longer determine municipal functions and that many functions, essentially provincial, are still left with, or have been imposed on, the municipalities; that municipal revenues are in many cases far from adequate to support municipal functions; that there is almost universal complaint across Canada of undue, or inequitable, taxation of real estate, though the complaints are not always well founded; that although the total of municipal debt has not risen substantially during the depression, the credit of many "one-industry" municipalities, working-class "dormitory suburbs" of metropolitan areas, and metropolitan communities generally, has been severely strained, and even destroyed in some cases, because of relief costs. The need for the provinces assuming greater responsibility for the credit position of their municipalities has also been pointed out.

The Commission has deemed it appropriate to discuss the municipal situation at some length because municipal governments were at great pains to bring their case before the Commission, which was greatly impressed with the earnest and public-spirited endeavour devoted to this basically important sphere of Canadian public life. Democracy begins with local government, and local government cannot be politically healthy and stimulating unless the problems set to those who conduct it are possible of solution. The essence of financial responsibility lies in the possibility of balanced budgets which permit of far-sighted planning, and this condition has been in grave peril in Canadian municipalities during the last decade.

Chapter VIII

EQUITY AND EFFICIENCY IN TAXATION

The Commission is directed by its terms of reference to examine whether taxation, as at present allocated and imposed in Canada, is as equitable and efficient as can be devised. The examination has been made in Book I[1] and reasons have been given for returning a negative answer to the question thus propounded. The financial plan recommended by the Commission as Plan I has been devised with a view to effecting some important improvements in the Canadian system of taxation and to making possible a thorough reform of that system in respect both of its equity and its efficiency. The purpose of the present chapter is to advance a number of recommendations and suggestions for reform and to show how the adoption of Plan I would make it possible to give effect to them. Equity and efficiency in taxation are closely related and in practice neither can be pursued without regard for the other. It will, however, be convenient to direct discussion in the first place to efficiency in taxation.

Efficiency in Taxation

Efficiency in taxation has been defined in Book I[2] as skill in collecting a given amount of revenue with the least possible burden on the national income. Taxation, taken together with the expenditure which it defrays, does not necessarily impair the national income. Indeed, the national income should be enlarged by the influence of the services which governments supply, and, if wise policies are followed, the form which the national income takes as a result of taxation and expenditure will be preferable to that which it would have taken had the functions of government been more restricted. While the present chapter is devoted to equity and efficiency in taxation it must be remembered that it is equally important that governmental expenditures should also be governed by considerations of efficiency and equity. However, as the proportion of the total national income which is taken by governments rises, it becomes only too probable that taxes will be employed which seriously impede the expansion of the national income. In calculating the proportion of the income which is taken by governments their non-tax revenue in the form of licences, liquor store profits and so forth must be included and, if social services are financed by compulsory contributions, these too must be counted.

Inefficiency of Taxation on Costs.—Generally speaking, the national income will be restricted if revenue is raised in ways which lead to an increase in production and business costs. To this general proposition there is an obvious exception in the case of taxes which appear to increase the costs of an industry but which, in so doing, merely operate to drag into the open and impose upon it concealed costs which had previously been borne by the public, e.g., taxes on vehicles which damage the roads, levies to provide compensation for those injured in industrial accidents, or to provide maintenance for those thrown out of employment. In these cases it is true that a marginal firm, or even a marginal industry, may be eliminated, but in the long run its disappearance should be socially beneficial, as it is likely to be replaced by a firm, or an industry, which can pay its way. Taxation which forces an industry to bear its legitimate costs will sometimes operate, just as minimum wage laws may operate, to destroy a substandard industry.

But, except in a special case of this character, it is very undesirable that taxation should eliminate either a firm or an industry by destroying the margin of profit which enables it to remain in operation. This is precisely what taxes which increase costs of production tend to do. Many firms and many industries are, no doubt, able to bear these taxes. But firms which are struggling to survive may find that taxes affecting their costs of production compel them to raise their prices, and that although their competitors also have to raise their prices, their sales fall off because of diminished consumption. In the long run these struggling, or marginal firms, may find that their business has become unprofitable or, worse still, that they can continue in business only at a loss. The result will be that marginal firms will tend to disappear and that other firms which had formerly had a comfortable margin of profit will in their turn become marginal. At the same time

[1] Ch. VIII.
[2] *Ibid.*

new enterprises will be deterred from entering a business in which costs have been raised by taxation, and consumption restricted by high prices. The result of the tendency of marginal firms to disappear and of the tendency of potential investors to refrain from engaging in new enterprises, is that both labour and capital resources will be thrown out of employment and that the national income will be correspondingly diminished. Out of this diminished national income a larger revenue than before will have to be raised, as the unemployed will have to be maintained at the public cost. If, in order to raise the larger revenue, new taxes are imposed which bear on costs, the vicious circle will be completed.

The alternative to taxes which increase business costs lies in taxes falling on profits or other surpluses. In the long run this means that these taxes should be replaced by an expansion of the personal income tax. As an immediate measure they would presumably be replaced, in the main, by increasing the rate of tax on corporate income. This (which would result almost automatically from the implementation of Plan I) would in itself be a great step forward, for although the corporate income tax partakes of the character of a tax on costs it is paid only by businesses which show a net profit and imposes no burden whatever on enterprises which are unable to bear it. It would, therefore, occasion no diminution of the national income in the way which has been described. Nor should it exercise the same deterrent effect on new investment.

It has been shown in Book I[3] that in Canada a larger part of the total revenue of governments than in other comparable countries has been raised by taxes which increase costs, and it has been shown that this harmful taxation is not merely the result of a mistaken policy which can be changed at will, but that it is a practically inevitable consequence of the present allocation of the burdens of government and of the sources of revenue as between the Dominion and the provinces. The financial arrangements which the Commission has proposed in Plan I are designed to go to the root of the evil and to remove the basic obstacle to a sound fiscal policy. By relieving provincial governments of many of the charges which they now have to meet, and transferring these charges to the Dominion, Plan I makes it possible, and necessary, for the provinces to renounce the use of taxes on corporations, personal income taxes and succession duties. The Dominion, as the sole government employing these important forms of taxation, will then be in a position to give effect to substantial reforms, some of which will follow automatically from the unification of taxing authority.

In another chapter[4] a list is given of the various taxes which provinces impose on corporations in addition to those which an individual or partnership carrying on the same business would have to bear. Many of these are taxes which increase the costs of production because they have to be paid even if no net income is earned by the corporation. In practice, it is service corporations—banks, finance companies, chain stores, investment companies, trust companies and loan companies—which have suffered most from taxes based on their capital stock, or on some other index which bears no necessary relation to their earnings. In their turn the chief victims have been the white-collared workers whom these companies would have employed if they had not been forced to close this or that office, or if they had been disposed to expand their operations. And unemployment cannot develop in any section of the highly integrated Canadian economy without tending to spread, by reason of the reduced consumption of the unemployed, to other sections of the economy.

The Dominion is in a far better position than the provinces, and than the Dominion and the provinces together, to sweep away all these objectionable taxes and replace them by increasing the rate of taxation on the net incomes of corporations. As has already been suggested this reform, while it would be important, should only be preparatory to a more radical change which would shift the burden of these taxes to the personal incomes derived from business (and, of course, from other sources too). Other taxes which increase costs, of which the sales tax is the leading example, could be gradually replaced by revenue derived from the two main instruments of progressive taxation—the personal income tax and the succession duties—if, as Plan I provides, these were employed by the Dominion alone. The same use cannot, in practice, be made of these taxes if both the Dominion and the provinces use them, for the imposition of a high rate of tax in one province makes it difficult for the Dominion to increase its own rates without causing great hardship to taxpayers in that province, even though there may be much to be said for higher rates of federal taxation so far as the other provinces are con-

[3] *Ibid.*

[4] Pp. 115*ff*

cerned. The importance of reforms which would replace taxes on costs by taxes on surpluses can hardly be over-emphasized, for it is largely through the avoidance of burdens on what have been described as marginal enterprises that more sustained employment of the nation's manpower and of the nation's capital can be achieved.

Inefficiency incidental to other repressive taxes. —Avoidance of burdensome taxes on costs with their repressive effects on employment is not the only objective at which an efficient tax policy should aim. It should seek to avoid other deterrents to desirable economic behaviour and, when possible, should provide incentives to desirable behaviour. The Commission has had occasion to point out how succession duties, as at present imposed by the provinces, operate to distort investment throughout Canada in a way which is economically undesirable.[5] Uniform succession duties which would completely eliminate the evil of double taxation of the same property, and which would minimize the possibility of evading the tax, would make it possible to derive the maximum revenue from this source with the least harm to the national income. It is theoretically conceivable that this result might be obtained by a complicated interprovincial agreement coupled with appropriate Dominion legislation, but experience shows that close voluntary co-operation of this character is extremely improbable. Even if an agreement were made it might, in addition to its beneficial consequences, have the undesirable effect of making it difficult to adjust the details of the tax from time to time to suit changing conditions. Plan I, as has been shown, would both ensure complete uniformity and afford full opportunity to modify the structure of the succession duties as experience might show to be necessary for equity as between taxpayers and for efficiency in administration.

What has been said of succession duties has its counterpart in respect of the personal income tax. In this case, however, the imposition of the same tax by both Dominion and provinces (and even by some municipalities) is not a mere possibility but an accomplished fact. The freedom of action of the Dominion is seriously cramped when it has to find taxes which will operate without causing undue hardship either in provinces which have or in those which have not their own income tax. When the same citizen has to pay income taxes to two authorities which have different definitions of taxable income, or which allow different exemptions, or which adopt different systems of progression, or between which there is dispute as to priority in assessment, he is likely to be a more than usually unwilling taxpayer. He feels that two different taxes cannot both be right, that they cannot both be the most equitable that can be devised. Almost certainly he will think of the one less unfavourable to himself as the more equitable. Uniformity in income tax structure is conceivable as a matter of agreement, but it is improbable. Under Plan I uniformity is automatic, since there will be only one personal income tax in all Canada, and the field will be clear for perfecting the tax.

From the point of view of efficiency in taxation (as well as from that of equity which will be considered later) it is important that the tax should be perfected. It has already been suggested that the aim should be to make the personal income tax take the place of the corporate income tax which partakes of the character of a tax on business costs. These two income taxes, as they are employed today, have as one of their results that investment income in the form of dividends is taxed twice while all other income (including investment income in the form of bond interest) is taxed once only.[7] The two taxes as now imposed make the income from corporate enterprise less vulnerable to taxation if the capital structure of the enterprise is largely composed of bonded debt. Yet this type of capital structure is hardly deserving of the encouragement which the Canadian taxation system extends to it, for the heavy fixed charges which it involves import a rigidity into the national economy which may be dangerous in times of depression. Nor is it expedient to penalize (as at present) corporate organizations as contrasted with partnerships, individual enterprises, and publicly-owned enterprises. It might be found practicable to obtain, by taxing income generally at a higher rate than at present, enough revenue to replace the revenue which would be forgone if dividends as an item in personal incomes were exempted to the extent of the tax paid upon them at the source as net corporate income.

This device, namely the retention of the corporate income tax coupled with an exemption in respect of the personal income from dividends, would put

[5] P. 117.

[7] As a matter of equity there is no clear reason why bond interest should have been accorded this favoured position; and as between two recipients of dividends the combined effect of the two income taxes is somewhat regressive in comparison to the alternative type of taxation.

the individual taxpayer in the same position as if he had received the dividends free from taxation as corporate income but had been required to pay personal income tax in respect of them just as on all other items in his personal income. It appears preferable for several reasons to the complete abolition of the corporate income tax. In the first place the retention of the corporate income tax is convenient if Plan I is adopted and the Dominion undertakes to hand over to the province concerned an amount equal to 10 per cent of the profits arising from the exploitation of its mineral wealth. In the second place the corporate income tax is useful in ensuring that non-residents of Canada do not escape a rate of tax appropriate to direct investment. These non-residents may be Canadians living abroad, or may be foreigners who have invested in Canada. In either case it will be for the income tax authority of their place of residence to consider whether or not their personal income taxes should be arranged so as to avoid double taxation of the portion received from Canadian dividends. In the third place the corporation tax has the advantage from the standpoint of the Government of being payable when the income is earned by the corporation without the delay incidental to its distribution to the shareholders. It would, therefore, act as a tax on undistributed profits without, however, penalizing the shareholder in the long run.

It is only fair to note two considerations which affect the equity of this change in the character of the corporate income tax which appears so important from the point of view of efficiency. The first is that the corporate income tax tends (just like the real property tax which is discussed elsewhere)[8] to be capitalized and to diminish the market value of the security by the capitalized value of the existing tax. Inequitable as the tax itself may have been in its inception, its removal would produce a further inequity—namely the enrichment of holders of securities who have purchased them since the tax has been in operation. This second inequity need not, however, be a compelling reason for retaining in perpetuity a tax which is undesirable from the point of view of efficiency. It would be possible to take the bold course of exacting a tax on the windfall gain which would accrue to the holder of a security if the corporate income tax were removed (or, as has been suggested, counterbalanced by an exemption in respect of the personal income tax). Or the removal (or counterbalancing) might take place gradually. The essential thing is that new corporate enterprises should not be discouraged by the prospect of the tax. The second consideration is that the device of exemption from personal income tax does not readily meet the case of small incomes in respect of which the rate of personal income tax payable on the highest bracket of the taxable income is less than the rate at which the corporate income tax is imposed. To take an extreme example, an income too small to be taxable may consist entirely of dividends. In this case equity would demand that the holder of the income should be entitled to claim a refund of the corporate income tax, while efficiency might make it seem inexpedient to invite such claims.

There are, of course, many other ways in which the personal income tax might be improved and some of these will be discussed when equity in taxation is considered. It would, however, be beyond the scope of the Commission's instructions, and of its competence, to draw up an elaborate scheme of reform. It will suffice, at this point, to discuss the type of graduation which should be used in designing a progressive income tax. If, as at present, the successive brackets within which the income falls are taxed at progressively higher rates, the rate applicable to the highest bracket may become very high while the total income tax expressed as a percentage of the total taxable income is much lower. The effect of applying a very high rate of taxation to any increment of a large income is, of course, not entirely predictable.[9] There are various possibilities. An indomitably acquisitive taxpayer might behave exactly as if no tax were imposed unless the rate on the highest bracket of his income rose to 100 per cent. A taxpayer who was mathematically inclined might work out the odds which he might reasonably accept in investing for capital appreciation rather than for an income of which governments would receive the lion's share. An altruistic taxpayer might, at little sacrifice to himself, make donations to charity within the limits allowed as exemptions for purposes of the income tax. An astute taxpayer might think of ways in which he could share his income with those who would otherwise be his dependents. It is a matter of conjecture which of these consequences would be most likely—but it is a matter which should be studied. It is only by systematic research that a taxing authority can make sure

[8] P. 144.

[9] In some provinces the rate on the highest bracket of a very large income would exceed 100 per cent if Dominion and provincial taxes are combined. If any very rich men lived in these provinces their behaviour might be observed.

that the indirect effects of the taxation which it imposes are not highly injurious to the national income. The ultimate consequences of taxation may be so obscure that it is quite futile to rely on the taxpayers themselves making known through their parliamentary representatives the full effects of the tax. But consequences which are obscure are not, for that reason, unimportant, and taxation offers a most fruitful field for research. It is a matter of policy whether or not the probable consequences would be desirable or undesirable. If they were considered undesirable they might be avoided by applying lower rates, than those now applied to the highest brackets of taxable incomes, to the totality of the taxable income. A typical large income might pay the same amount as at present and yet its possessor might not be subjected to the same economic incentives as at present.

Inefficiency arising from high cost of tax compliance.—In another chapter the Commission has discussed the economies which can be made in the cost of tax collection through cordial and intelligent co-operation between governments.[10] Under Plan I most of these economies would be secured automatically since, in respect of three important taxes, one taxing authority would be substituted for many. There remains to be considered the important question of the cost to the taxpayer of complying with the laws which impose taxation upon him.

Representations from business organizations placed such emphasis on the cost of tax-compliance that the Commission attempted to secure some measure of this burden. Through the facilities of the Canadian Manufacturers' Association, a questionnaire was circulated among about 100 Canadian firms constituting a representative cross-section of Canadian industry. In the hope of obtaining fuller and franker information than might otherwise have been supplied, the firms were not asked to make their identities known to the Commission. The replies were received by the Canadian Manufacturers' Association and a code number affixed. Copies of the information were then forwarded to the Commission's office at Ottawa. About seventy replies were received. The information came from firms ranging in size from those whose office staff consists of one person only to some of the giant corporations of the Dominion. The information thus secured included not only the costs of tax-compliance but also costs on industry arising from compliance with government inspection, audits, statistical returns, etc. The answers to the questionnaire disclosed a wide variation from one firm to another depending upon the volume of business done, the nature of the business, the geographical scope of its operations, and the care taken in filling in the returns. It is not possible to reach conclusions applicable to all companies nor is it possible to arrive at a monetary estimate of the gross burden on all corporations but certain general conclusions may be stated. For a small company with a restricted geographical scope of activity, the burden is very small and perhaps not unreasonable; the principal complaints of such companies were that extra work was required and time was taken which might have been better devoted to more productive work. For large companies whose operations expose them to the full impact of Dominion, provincial and municipal regulations, taxing statutes and collections of statistics, there is a material extra burden imposed. One very large corporation estimated that its annual cost of preparing government returns was $90,000; it was required to file annually twenty-nine returns to the Dominion Government, sixty-four returns to seven provincial governments, and seven municipal returns, and it was subject to fifty audits and inspections; an additional staff of thirty-three persons was needed to prepare these returns. In addition to the actual out-of-pocket costs the larger companies emphasized the loss in productive capacity caused by diverting time and energy of responsible officers from the development and improvement of the business to the supervision of tax-compliance, or collection of data. Certain of the answers also stressed the difficulties created by divergences between Dominion and provincial requirements as to information required for their respective returns. For example, the lack of uniformity in depreciation allowances may require considerable extra work in preparing quite separate depreciation schedules. The answers also mention the loss of time and disruption of business caused by duplication in audits by different units of government.

These complaints deal with a number of distinct matters and raise some ancillary questions. In the first place there is the cost of preparing the returns required by governments for the purpose of calculating the taxes payable by the business. This expense is in itself a sort of taxation although the amount may be difficult to estimate. Efficiency in taxation requires that it should be reduced to the very minimum and the Commission believes that a substantial reduction would result from the adoption of the recommendations of Plan I looking

[10] Sect. C, Ch. II.

to the replacement of the numerous taxes on corporations by a single tax on net corporate incomes.

In the second place, there is the cost to business of the audits designed to test the accuracy of the returns. Governments, to keep their own costs of collection low, are apt to require audits at times inconvenient to business and sometimes long in arrear. The proposals of Plan I would, if adopted, lead to a reduction in the number of audits, since there would be no further occasion for audits by provincial governments which would withdraw from the taxation of corporate income. A single taxing authority would be in a better position than ten potential taxing authorities for arranging audits in a convenient and inexpensive form and for endeavouring to avoid the evil, of which the Commission received complaint, of reopening assessments years after the event and demanding financial readjustments in cases in which there was no accusation of fraud. Some of the hardships complained of may have been incidental to the elaboration of a new form of taxation. A single taxing authority is in the best position to apply quickly and intelligently the lessons of experience.

In the third place, there is what might be termed the cost of tax avoidance. No one wishes to pay more than the law requires. Taxation statutes are often drawn in great detail but their effect is not always crystal clear. Sometimes the amount which a business is required to pay can be substantially reduced by the exercise of care in its accounting practices and by the arrangement of details of the business. From the point of view of the business the cost of obtaining skilled advice and making the adjustments indicated is part of its tax burden since it is an expense which would not be necessary but for the imposition of the tax. From the point of view of the government imposing the tax these expenses may at times appear as incidental to an effort to escape from a legitimate burden. But from any point of view it is regrettable that there should be occasion for them. The proposals in Plan I, by reducing the number and complexity of taxing statutes, should do something to reduce these expenses, although it is impossible to eliminate them altogether.[11]

In the fourth place, governments demand a great deal of information from businesses which is not concerned directly, or even at all, with taxation. In the survey conducted by the Commission little distinction was made by businesses between returns required for purposes of taxation and returns incidental to other matters. It seems probable that business men treat both types of return as but different species of the same genus, namely governmental interference. This attitude is the easier to take because there seems to be widespread scepticism as to the value of much of the statistical information which governments collect. Yet much of the information is necessary for governmental purposes and useful for industry as a whole.[12] The Commission suggests that a special effort should be made by statistical branches to place before the industries concerned, at the time when information is requested, the value of the compilations which will be made possible by their co-operation—a co-operation which does involve a certain expense to business. It is always possible that in the course of preparing a justification for a return it may be found that it is no longer of practical importance, in which case the contemplated demand on business need not be made.

It will be seen that the major reductions in the cost of tax compliance are dependent on the adoption of Plan I and are not possible either under present conditions or under Plan II. It is, therefore, necessary for the Commission to add that, if Plan I is not adopted, there should be close voluntary co-operation between Dominion and provinces with a view to using common returns and common audits wherever this is practicable and to combining returns so as to minimize the cost to industry.

Equity in Taxation

It must be the wish of every thoughtful citizen that as far as is humanly possible the burden of government should be justly distributed and that every citizen should realize that he is making a just contribution—no more and no less—to the common expenditures. Taxation moreover cannot be efficient if it is grossly unfair and if two citizens, similarly situated, are called on for grossly unequal contributions to the cost of government. From the standpoint of the efficient tax-gatherer the less heavily taxed of the two might be required to pay more. From the standpoint of the taxpayer the more heavily taxed of the two is being victimized. Taxpayers are most willing to pay when they can see that they are getting value for their taxes. In so far as they are contributing to the deadweight costs of governments, taxpayers are most willing to pay if they believe that they are being asked for

[11] For complaints as to number of taxing statutes see Ex. 88, Brief of Canadian Manufacturers' Association, Ev. p. 2315.

[12] *E.g.*, trade statistics, accident statistics.

no more than their fair share of a common expenditure. It is, therefore, essential to efficiency in taxation that taxpayers should be convinced that the taxes exacted from them are taxes which it is fair that they should pay and which it would be unreasonable for them to grudge. But it is hard to find a canon of taxation which would be generally acceptable and it would be hard to apply any canon to the intricate mass of taxation which exists in Canada today. Any individual tax can be criticized on the ground of equity only if it operates unequally as between two citizens in substantially similar positions. When the system of taxation is considered as a whole it would, no doubt, be significant if it could be related to the income of each citizen so as to show what percentage of his income each man pays. But our taxes are very complicated and the incidence of many of them is likely to shift, so that the person who pays a tax in the first instance may not be the one who eventually bears its weight. It is, therefore, impossible to say with confidence what weight of taxation any one taxpayer bears. Nor is it possible to compute what his net income would have been had the tax system been different from what it is.

It may simplify our treatment if we exclude from our discussion of equity those taxes which are in substance a price which the taxpayer pays for specific benefits which he receives and which he is free to forgo. No problem of equity arises here (so long as the price is not exorbitant) for the taxpayer gets value for his money and his income is not diminished.[13] Other taxes may be disregarded because they are linked to some specific benefit which the taxpayer will receive although he is given no choice in the matter.[14] Other taxes, too, can be divorced from any consideration of equity as between taxpayers because they are designed to penalize certain forms of behaviour in the interests of society. Just as the difference between a price and a tax is a matter of degree so is that between a fine and a tax. The taxation of liquor, for instance, may in the interests of temperance be made something of a deterrent and in this case the consumer, though he may complain of intolerance, cannot well complain that he is inequitably taxed in comparison with citizens of simpler tastes. A large, though indeterminate, part of the revenue from the tariff may be treated in this way, as being a deterrent imposed to discourage the purchase of foreign goods.

Equities as between Individuals.—Subject to such reservation as may have to be made on these grounds of public policy, it is arguable that the tax burden should be so apportioned that every citizen will contribute according to his ability. This doctrine may be understood in various ways. It may mean that each citizen should contribute a uniform percentage of his income; or that he should contribute a uniform percentage of his income after deducting the minimum cost of his maintenance and of that of his dependents; or that he should contribute a higher proportion of this surplus if it is large than if it is small. The third version of the doctrine embodies the principle of progression. It is in accordance with the idea that equality of sacrifice is what should be sought, and not far removed from the idea that the necessary revenue should be raised with the least aggregate sacrifice to the citizens. Even among those who agree that progression is desirable there is no agreement as to the optimum rate of progression.

In practice no system of taxation can claim to conform to these exalted principles, the strict application of which would condemn any form of taxation (unless partaking of the character of a price or of a fine) which fell upon incomes so low that they provide a bare subsistence for those dependent on them for support. But principles which cannot be rigidly applied may, nevertheless, serve as a guide.

As far as possible no taxation should be imposed on the necessary minimum expenditures of low income groups. If, as was contended in some of the submissions, all citizens should be made tax conscious in order that a sense of civic responsibility might be fostered, this result can best be achieved by taxes on minor luxuries such as tobacco. In Canada there are some consumption taxes which do fall on low income groups and if these groups are in the future required to pay social insurance premiums it will be important that the taxes which they now bear should be reduced or removed. In the meantime these taxes may be regarded to some extent as a means of payment for essential services rendered to these groups by the state and, therefore, as being, in a broad sense, a price paid for necessaries.[15] This argument is the only possible justification for municipal taxes which increase the cost of the minimum of shelter, though it must be conceded that it is not clear that if taxes on cheap

[13] *E.g.*, postage, water rates.

[14] *E.g.*, local improvement taxes, premiums payable under social insurance plans so long as these do not exceed the value of the coverage.

[15] A similar argument could be used if universal non-contributory old age pensions were financed by a sales tax, the incidence of which appeared to be highly regressive.

housing were removed the benefit would be immediately passed on in the form of lower rents any more than it is clear that increases in existing taxation would be passed on in the form of higher rents. In theory, however, this would be the case and it is reasonable to expect that, in the long run, there will be a dominant tendency in this direction. Some municipalities do make an attempt to exempt minimum housing requirements from the full burden of the taxation of real estate and further moves in this direction would appear desirable.

Very few taxes lend themselves readily to systematic progression and, if it is desired that the total weight of taxation should progress at a given rate, these taxes will have to progress at a much greater rate. In Canadian practice the two main progressive taxes—the personal income tax and succession duties—are imposed at very high rates on very large incomes and very large estates and exact far less from medium incomes and medium estates than do similar taxes in Great Britain, Australia, and New Zealand. The result is that while Canadian taxation is probably progressive as between medium and large incomes it is possibly regressive as between small and medium incomes.[16] From the standpoint of equity this distribution of taxation seems objectionable and the two taxes which are under consideration could easily be adapted so as to readjust it. But a discussion based on equity and efficiency in the narrow sense would be incomplete if it did not indicate that other considerations may enter into the determination of a tax policy. For instance, large incomes and large estates may be considered as undesirable in themselves and may be taxed accordingly. Heavy taxation may, in this case, be treated as something which will have a stabilizing and democratizing effect on the community, while similar taxation of the preponderantly important class which enjoys medium incomes might be thought of as socially dangerous. Or it may be considered that the taxation of large incomes and large estates may (without being unjust) be so high as to harm the national income by discouraging both exertion and investment. In either of these cases considerations of equity would normally be modified in the interests of over-riding considerations of public policy.

Inequities as between different regions of Canada.—With these general considerations in mind the more serious inequities of Canadian taxation, as at present allocated and imposed, can be considered. The most glaring inequity is territorial. If the taxes which the citizens of each province pay (including taxes paid to the Dominion, taxes paid to the province, and taxes paid to municipalities and other taxing authorities created by the province) are expressed as a percentage of the total income of the area concerned, it has been shown in Book I[17] that this percentage differs greatly as between provinces and that it is highest in the least wealthy provinces. The differences are even greater if the total taxes paid in each province are expressed as a percentage, not of the total, but of the surplus income of the province, i.e., of the total income less the cost of subsistence of the inhabitants. The whole structure of Plan I is designed to reduce (though Plan I will not eliminate) this inequality. Under the Plan each provincial government would be in a position to provide, either directly or through its municipalities and other agencies, normal educational, social, and developmental services for its people without having recourse to exceptionally heavy taxation. Differences in taxation might well continue but they would correspond to differences in the services provided. To realize this result as between provinces it is essential that the two taxes which lend themselves most readily to progression should be entrusted to the Dominion Government alone and should be made uniform throughout Canada. It is in this way only that money can be found for the National Adjustment Grants, payable to the provinces whose need is great, without resort to types of taxation which would nullify the very purpose of the grants. Just as in the discussion of efficiency in taxation questions of equity arose, so this arrangement, which conforms to standards of equity, has marked advantages from the point of view of efficiency. The maintenance of the national income of Canada requires that every government in Canada should provide adequate developmental, educational, and social services for its people. This is not reasonably possible today. Plan I would make it possible. But Plan I cannot produce these consequences unless the provinces proceed to effect, as between various areas within the province, the same sort of equalization that Plan I would produce as between the provinces. At present neighbouring municipalities performing similar services for their citizens frequently have very different rates of taxation and it is very inequitable that these

[16] Book I, Ch. VIII.

[17] *Ibid.*

differences should persist. If Plan I is implemented, provincial governments will be financially able to deal with this situation.

Questions of Equity and Efficiency relating to Particular Taxes.—In the course of the public hearings many representations were made to the Commission concerning the inequity or inefficiency of particular taxes as at present imposed, and some further suggestions have occurred in the course of the Commission's work. In this connection specific recommendations do not appear appropriate as many conflicting considerations are involved, some of which the Commission is not in a position to appraise. Discussion of a general character may serve two purposes: it may call attention to a number of grievances; and it may indicate the need for constant vigilance in adapting taxes to changing conditions.

In connection with the personal income tax it is frequently contended that it is unfair, or even unjust, to tax an individual on that part of his income which he has already paid by way of income tax to another taxing authority. This is what happens in the Western Provinces and on large incomes is a very important factor. The following table shows the percentage of the gross income taken by the provincial income tax in British Columbia and Alberta, where the income tax paid to the Dominion is not allowed as an exemption, and, in contrast, the proportion taken in Ontario, where the provincial rate is half the Dominion rate, but where the income tax paid to the Dominion is allowed as an exemption:—

PROVINCIAL INCOME TAX—PROPORTION OF GROSS INCOME

(Married man with no dependents—prior to September, 1939 Dominion Income Tax increase)

Income	British Columbia	Alberta	Ontario
$			
100,000.....	23%	26%	7·4%
500,000.....	27%	29%	7·8%
1,000,000.....	27%	30%	7·7%

This grievance results from the existence of Dominion and provincial income taxes neither of which concedes priority to the other. It would disappear automatically if Plan I were adopted. At present some provinces complain that they must perforce concede priority to the Dominion income tax[19] and, if they do so, the taxpayer's grievance does not arise. In practice neither the grievance of the individual nor that of the province is much alleviated by pointing out that a careful readjustment of the rates of tax could raise the same revenue from the same people without taxing anyone on income which he had already paid in income tax. If Plan I is not adopted there is, however, much to be said for making some such readjustment. As between a Canadian and a foreign jurisdiction the question of priorities is an appropriate subject for international agreement—and the scope of such an agreement can be wider if the Dominion is the sole authority levying an income tax, or if all provinces accept the Dominion's definition of taxable income.

Various suggestions were made as to the exemptions which should be accorded under the Dominion income tax law. The Ontario Brief, for instance, suggested an exemption for children attending universities. The same relief to parents of university students could probably be more equitably given by a reduction in university fees which would benefit rich and poor alike, whereas an income tax exemption would mean far more to high than to low income groups. The same sort of objection applies to the proposal for exempting life insurance premiums from personal income tax.[20] In both cases the objection would be greatly modified if the income tax exemption were replaced by a tax rebate of a fixed sum equal to the tax at a low rate on the income to be exempted.[21] There is much to be said for such an exemption in the case of life insurance as an incentive to prudent behaviour. Yet, it could easily be made to appear harsh and heartless to tax the equally praiseworthy investments of those who by reason of some disability are uninsurable or of those who prefer to provide for their future in other ways. A further suggestion was that the Dominion, which charges interest on underpayments of income tax, should pay interest on overpayments made in error. The point may appear to be a small one, but the fact that such a grievance should have been deemed worthy of inclusion in a provincial brief[22] suggests that it is worth while to make a small financial sacrifice in order to make an equitable adjustment and to remove the danger of creating a "victimization" psychology in taxpayers.

[19] Ex. 296, Brief of Ont., Pt. I.

[20] *Ibid.*, Pt. II.

[21] This idea is developed later. An exemption for moderate insurance premiums is allowed under the British Columbia income tax.

[22] *Ibid.*, Pt. II.

The Dominion income tax at present treats all royalties as investment income and taxes them at the rate applicable to that income, although the royalties received by authors are the reward of exertion, differing from wages only in that they are deferred and hazardous, and differing in all but name from the royalties received in respect of coal or oil. This is a minor matter but it seems worth mentioning as an illustration of the possibility of constant perfectionment of an instrument of taxation in the light of experience.

It has been suggested that the taxation of investment income paid to non-residents provides a suitable way of raising a revenue with no burden to the Canadian taxpayer. This is, of course, true only if no further foreign borrowing is contemplated either by public or private bodies, and if immunity from this type of taxation (as contrasted with normal taxation of an enterprise in which a foreigner may have invested) is not considered to have been a tacit condition in past borrowing. The Commission is not in a position to appraise either of these two conditions, but it may be pointed out that the taxation of income payments to non-residents is a suitable matter for international agreement. Some such agreements have already been made, and it will be easier to make them if the Dominion is the sole authority levying a personal income tax. While Canada as a debtor nation might gain on balance today by taxing foreign investors, forbearance may be a *quid pro quo* in other arrangements. And Canada may not be forever a debtor country.

In connection with the corporate income tax it has been suggested that provision should be made, by way of incentive as well as on grounds of equity, to exempt for obsolescence of plant and equipment as well as for normal depreciation. The Commission notes that some action in this direction has already been taken and looks on this as yet another instance of perfecting a novel instrument of taxation in the light of experience.

A contention by the electrical industry[23] presents very great theoretical difficulties. It is said that it is unfair to those consumers of electricity who are supplied by privately-owned utilities, if the rates they pay must include provision for taxation, while other consumers of electricity, who are supplied by publicly-owned utilities, may have their rates lowered to the extent of eliminating profits. Whether the rates charged to consumers are, in fact, raised by taxation of the profits of privately-owned utilities, at a rate applied to profit from all other forms of corporate investment, is open to doubt. But it is clear that a province or municipality which chooses to supply electricity at cost can charge lower rates than an enterprise which operates for profit, assuming that both enterprises are more or less equally efficient. If the publicly-owned utilities had been taxed on the profits which would have been earned had such a policy not been pursued, it is said that in 1936 a revenue of upwards of $7,700,000 might have been raised.[24] The simplest practical method of removing this inequity would seem to lie in the replacement of the corporate income tax (and of all other taxes peculiar to corporations) by an expansion of the personal income tax, or by the more expedient way of obtaining this result, namely, the exemption of dividends from personal income tax to the extent to which they have already been taxed as corporate income.[25] If taxes on costs, e.g., on the electricity supplied, had been substituted for taxes on profits, this additional revenue might have been obtained at the expense of those who have, it is said, virtually received an untaxed distribution of the profits of publicly-owned utilities. A similar result would have been achieved by taxing publicly-owned utilities on the assumption that they should have charged higher prices. The Commission is not prepared to recommend either of these two courses and considers that, in the circumstances, the consumers of electricity purchased from publicly-owned utilities must be allowed to retain such advantages as they now enjoy. Nor would it be easy to say what should be done if a publicly-owned utility paid dividends to a province or municipality. Should its earnings be subjected to the corporate income tax or not? The exemption which, in one way or another, is accorded to publicly-owned enterprises may, of course, be considered as the use of an incentive to drive provincial governments to socialism, for if all enterprises were publicly-owned the income of a province might be freed from the burden of the corporate income tax, much as it was contended in one of the submissions[26] that a province escapes this burden if its businesses are conducted by individuals or partnerships. If this larger issue is raised the answer seems to lie in the exemption for the purposes of the personal income tax of dividends, to the extent to which they have already been taxed as corporate income.

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[23] Ex. 109, Brief of Canadian Electrical Ass'n, Inc.

[24] *Ibid.*, p. 8.

[25] The general case for this course of action has been stated *ante*, p. 152.

[26] Ev. Senator Farris, p. 5029.

It is necessary to consider complaints made with respect to the corporate income tax because, although it has been suggested that this tax is objectionable as being a tax on profits, its retention has been recommended (subject to a counterbalancing exemption). It has been contended that it is inequitable that a corporate income, in which profitable and unprofitable years occur, should be taxed on the profits of the profitable years and receive no consideration for losses in the unprofitable years. A corporation which has a net profit every year will pay the same tax over a prolonged period whether it is assessed year by year, or permitted to average several years' income in computing the tax to be paid. But if net income alternates with losses, a corporation will pay less if it is allowed to average its net income over several years than if it is taxed on the full net income in every year in which there is a net income. Put differently, two corporations with the same net income in the course of a long period may be very unequally taxed in respect of this income if they both pay on the full net income in the years in which there is a net income. The corporation which has occasional losses is relatively overtaxed to the extent of the tax payable on income equal to the losses. The Commission considers that, if the system can be conveniently introduced, it is fairer to tax corporations on the basis of their average income over, say, a three-year period. There would be some loss to the national revenue (unless rates were raised slightly to compensate for it) but there would be a certain advantage in stabilizing the yield of the corporate income tax, since the taxable income would be less variable from year to year.*

Averaging might also have a place in connection with the personal income tax, although its purpose would be different. It is less likely than in the case of corporations that losses would alternate with net incomes, but the rate of tax varies greatly with the size of the income so that a taxpayer with an exceptionally high income in some one year would gain substantially if he might average his income over a three-year period. This consideration would be of very great importance if capital gains were treated as income and capital losses were deductible. However, the administrative difficulties would probably be greater in averaging personal incomes than in averaging corporate incomes.

The question whether or not capital gains should be assessed and taxed as income, and capital losses allowed as a deduction, arises both in respect of personal and corporate incomes. It is a difficult question. It is hardly practicable to assess the whole of a taxpayer's property annually to determine how much he has been enriched or impoverished within the year, and the usual suggestion is that only realized cash profits should be treated as income. The problem is a very complicated one in which questions of equity and efficiency are both involved. It is not inequitable that capital gains should be taxed, provided that an allowance is made for losses and that there is averaging of net income over a period of years. But it is not everyone who counts capital gains as if they were components in his annual income. The return to the taxing authority becomes more variable from year to year as gains and losses are included in computing taxable income. The technical administration of the tax becomes complicated, and a complication which is worth while when substantial sums are involved becomes wasteful when the gains and losses on capital account are small. The effect of various plans for taxing capital gains on the investment policy of taxpayers—on their reluctance to sell securities whose value has risen within the year, or their eagerness to sell those whose value has fallen—is difficult to appraise. With the means at the command of the Commission it is impossible to appraise. Devices designed to reduce this effect on investment policy involve complications in administration and give rise to various possible inequities. The whole question deserves careful study. The Commission's offhand opinion is that capital gains are best taxed through the succession duties and that (except perhaps in the case of taxpayers whose income is mainly derived from buying and selling) they cannot advantageously be classed as income.

If it is desired to make the income tax somewhat more productive this result might be achieved by replacing the exemption of that part of the income necessary for the taxpayer's maintenance and that of his dependents, and such exemptions as might be accorded in respect of other reasonable expenditures, by a reduction of the tax payable by a fixed and equal amount which would be equal to the tax payable on the sum of these exemptions if each constituted the sole taxable income of the taxpayer. No great inequity would be involved, for the purpose of these exemptions is to make sure that the requirements of a decent subsistence are exempted from taxation. At present any one exemption operates with far greater benefit to the

* An alternative method of stabilization would lie in changing the rate of the tax from year to year, making it vary inversely with the estimate of the income subject to tax.

rich than to the poor and frequently relief is given where none is needed. The same considerations do not apply to exemptions for charitable donations whose purpose is to promote munificence or at least to protect charities against the indirect consequence of high rates of income tax on those who sustain them.

The effect of such a change on the tax payable by a married man with two dependents, and a gross income of $10,000 annually, is illustrated in the following table:—

DOMINION INCOME TAX PAYABLE

(pre September 1939 war budget increase of 20%)

—	I under present system	II if exemption for dependents fixed at the rate ruling in the lowest bracket.
Taxable income	10,000	
less exemptions	− 2,800	
	7,200	10,000
Tax (and 5% sur-tax)	462.00	787.50
Less fixed exemptions—		
man.....$30		
wife..... 30		
2 children 24.....	—	84.00
	462.00	703.50

In the case of succession duties it is often argued that the tax should progress rather in proportion to the total wealth of the beneficiary than according to that of the decedent. It is obvious that there would be great administrative difficulty in assessing the estate of every recipient of a legacy as at the moment of its receipt. His taxable income of the preceding year would be readily ascertainable but would not be a thoroughly satisfactory basis for assessment. However, something might be done to lower the rate of duty in the case of a decedent who makes provision for a large number of dependents or whose estate is divided on intestacy among a number of children. Usually a transmission to children is taxed at a lower rate than a transmission to more remote relatives or to strangers. It would be in keeping with this universal practice to extend some concession to large families. This point would be of particular importance if Plan I is adopted and a uniform succession duty made applicable to the whole of Canada.

Various aspects of the sales tax were brought under discussion in the public hearings. There is a strong case for the progressive elimination of this tax partly because it is a tax on costs, partly because (except in the case of very low incomes)[28] it is regressive, partly because, if social insurance premiums are collected from very low income groups, those who pay the premiums can hardly be expected to pay the sales tax as well. The sales tax is open to the further objection that the tax is pyramided because, if it is collected from the manufacturer, each subsequent dealer in the commodity taxed calculates his profit on the price which he pays—a price which includes the tax. The effect is that the tax, which collects for the government a given percentage (today 8 per cent) of the manufacturer's price, takes from the ultimate taxpayer approximately the same percentage of the retail price. A number of points of detail were mentioned in the public hearings, objecting to the tax being levied on prices of materials which included freight charges, claiming relief in the case of payment of the tax on sale of goods to a purchaser who became bankrupt and never paid for them, and asking for frequent and final audits. These are not questions with which the Commission feels competent to deal, but they are points on which experience should be continually used as a guide in making further improvements.

In spite of its many defects the sales tax is one which many governments may be driven to use. The Province of Saskatchewan and the City of Montreal already use it. The Provinces of Nova Scotia and British Columbia asked for an extension of provincial taxing powers which would validate a retail sales tax.[29] The School Trustees of British Columbia advocated a provincial sales tax earmarked for education.[30] So did the Vancouver Real Estate Exchange.[31] The Calgary Board of Trade made similar representations[32] as did the Home Builders' Association of Toronto.[33] But many briefs either expressed dislike of the existing sales tax[34] on grounds which have already been indicated, or opposed its extension to the provinces.[35] The Quebec Hospital tax on meals was

[28] Book I, Ch. VIII.
[29] Brief of N.S., p. 33; Brief of B.C., p. 352; Ev. p. 4840.
[30] Ev. p. 5348.
[31] Ex. 199.
[32] Ex. 249.
[33] Ex. 288.
[34] Ex. 401, Brief of Communist Party; see also Ex. 91, Brief of Canadian Manufacturers' Ass'n and Ev. p. 2449; Ex. 280, Brief of Canadian Importers and Traders Ass'n, Inc.
[35] Ex. 206, Brief of Provincial Council of Women, B.C.; Ex. 236, Brief of Edmonton Chamber of Commerce; Ev. p. 3126 (Trades and Labor Congress).

denounced for similar reasons.[36] The upshot of this discussion is that a sales tax does raise revenue and if levied at the source excites no great opposition from those who pay it. Its incidence, however, when it is traced out, does not make it a desirable component in a tax system. Its indirect costs are high. Its rating on considerations of equity and efficiency must, therefore, be low. In particular circumstances it may well appear to be the least of several evils. The Commission appreciates the full strength of the argument against the tax and hopes that its general recommendations are of such a character as to remove any demand for its imposition except by the Dominion.

In connection with excise taxes a question of jurisdiction was raised. Provinces are obliged to frame their taxes on such things as fuel oil or gasoline so as to conform to the courts' definition of direct taxes. It is claimed that in some cases the result is inefficiency and expense in collection.[37] It would be in keeping with the general tenor of Plan I that, if the provinces withdraw from certain fields of taxation, they should have full power conferred on them to levy taxes on certain named commodities which would include fuel oil and gasoline. The general power of delegation recommended in an earlier chapter would make it possible to extend the list. It would also be in keeping with Plan I that the Dominion should limit its excise duties on liquor so as to respect the profits of provincial liquor stores which form no inconsiderable part of the revenues on which the provinces would have to rely.

Some of the many and varied problems which arise out of the taxation of real estate have been discussed in another chapter.[38] No taxes have been more bitterly denounced and it is the hope of the Commission that an indirect effect of the adoption of Plan I would be to reduce the burdens which these taxes have to carry, to facilitate some readjustments as between municipalities, and consequently to make it possible to carry out some of the reforms which are suggested in the chapter on municipalities.

[36] Ex. 342, Brief of Montreal Board of Trade, Ev. p. 8149.

[37] Ex. 34, Brief of Sask., p. 123; see also Ev. pp. 4163-4 *re* Nova Scotia.

[38] Pp. 144*ff*.

SECTION C

ADMINISTRATIVE ECONOMIES

CHAPTER I. Union of Certain Provinces
CHAPTER II. Avoidance of Overlapping and Duplication

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SECTION C

ADMINISTRATIVE ECONOMIES

The Commission believes that its recommendations on public finance and the reallocation of social services will, if implemented, make possible not only economies in government by a reduction of overhead costs but will facilitate as well the adoption of constructive policies which should tend to enlarge the national income and in this way to lessen the proportion of the taxpayers' income exacted by governments. The Commission regarded its inquiries into public finance and the allocation of jurisdiction as of major importance and distributed its time and energies accordingly. But the terms of reference refer specifically to increases in expenditure due to "overlapping and duplication of services as between the Dominion and provincial governments in certain fields of activity". The Commission, therefore, made special inquiries into this phase of Dominion-provincial relations. This section summarizes the results of this examination.

From various submissions made to the Commission and from discussion in the press, it appears evident that there was considerable misapprehension as to the main purposes of the Commission's inquiry. It seems to have been assumed in some quarters that this Commission—like the May Committee on National Expenditure in Great Britain—was charged with examining the public services and public policy in general with a view to recommending detailed reductions in governmental expenditure. But the terms of reference give no such express instructions. In any case it would obviously have been inappropriate for one government in a federal system to appoint a commission to examine into and pass judgment upon the administrative services and public policies of other autonomous governments. The Commission believes that its functions were more fundamental. It thinks that its researches and main recommendations have laid the ground-work for every government in Canada to institute inquiries into its own policies and its own services if it so desires. In particular the Commission wishes to draw attention to its statements of the public finances of the Dominion and of each of the provinces which, by reducing the finances of all governments to a common accounting basis, have provided for every government a yardstick by which it can measure the cost of its services in comparison with those of other governments.

But the taxpayer should be warned that sweeping reduction in governmental expenditures in Canada could not be made without a severe shock to the national economy, and, for the time being at least, a severe setback in the national income to which many governmental expenditures undoubtedly contribute. The bare deadweight cost of government at its various levels forms a surprisingly small proportion of the total governmental expenditure, and even if substantial economies could be effected in it they would correspond to but a small fraction of the annual taxation imposed on the people of Canada. The cost of debt service, for example, can only be reduced if maturities occur when governmental credit is good or if some arrangement can be made for anticipating maturities when interest rates are favourable, unless, of course, a policy of repudiation of contractual obligations is adopted. The cost of social services and of education is almost equally rigid except that in certain contingencies governments in Canada have found it expedient to make certain reductions in the salaries of civil servants and teachers. But the limits within which such a course can ever be desirable, before the "sacrifices all round" involved in general taxation are called for, are very narrow.[1] Substantial reductions in developmental services could only be effected at the expense of the national income which Canada can ill-afford to reduce. Such services may be ill-judged or wasteful, and plans made when prospects were bright may have to be revised. But there are many types of maintenance and developmental services which it is short-sighted economy to discontinue, just as there are conservation services which it has been short-sighted not to institute. From time to time great expenditures also become inevitable because of national emergencies such as war, and in such circumstances economy is likely to seem of minor importance.

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[1] With reference to reduction in civil service salaries the May Committee Report (cmd 3920, p. 25) quoted with approval the remarks of the Anderson Commission on the Civil Service in Great Britain (Report of July 25, 1923):—

". . . employees of the Crown would have a real ground for complaint if their pay were related to wages in industry only in the time of low wages. If they do not get pay relative to the boom they must be spared the severity of the slump.

The State as a model employer offers security, a pension, a dignified service, and a moderate wage in exchange for the excitement and possibilities of private employment."

On the whole it is to expansion of the national income, i.e., of taxpayers' income, rather than to substantial reduction in expenditure that taxpayers must look primarily for relief, for as their income increases taxation at its present level will become a smaller and smaller proportion of that income. In a large measure the expansion of the national income is dependent on external conditions over which Canada has no control. But the economic weapons in the hands of government, and particularly of the Federal Government, may be of importance for increasing the national income. The Commission, however, refrains from making specific recommendations on the proper policies for achieving this end. It was not empowered to advise on public policy as such; its function is rather that of advising how the burdens and functions of government and the sources of governmental revenue may be most efficiently distributed with due regard to the "proper carrying out of the federal system". It is the Commission's hope, however, that its recommendations in these respects will not only conduce to more economical and efficient administration, but will also facilitate the adoption of public policies for the expansion of the national income.

UNION OF CERTAIN PROVINCES

Throughout Canada the view seems to be widely held that the cost of government might be materially reduced by a reduction in the number of provincial governments.[1] It is frequently suggested that economies would result both from the cash saving in the dead weight cost of government, and from a reduction in the wasteful expenditures of government through a reduction in the number of spending units. In addition it may also be suggested that the union of certain of the present provinces might, by pooling economic risks, improve their general credit and thus enable them to borrow money at lower interest rates. But union of provinces is not a simple matter. In addition to its financial consequences there are broad political implications. These include both an increase in political stature, which may be obtained at the expense of some loss in intensity of local political life, and a change in the outlook of the citizen who is asked to forgo some traditional local loyalties or at least to merge them in a loyalty to the larger political entity. But on the political desirability of the question we express no opinion; our concern is merely with the possibilities of economy. In particular two consolidations were suggested to us: the union of the Prairie Provinces and the union of the Maritime Provinces.

(a) Union of Prairie Provinces

The savings which might be effected by union of the Prairie Provinces may be inferred from a cursory examination of the public accounts of the three provinces for a single year. In 1936 the gross current expenditures of the Prairie Provinces amounted to $56,171,000. In that year expenditures on education amounted to $6,962,000; on relief $13,486,000; on other types of public welfare $9,549,000; on highways $2,646,000, and on net debt charges $13,450,000. Together these items accounted for about 82 per cent of the total combined expenditures of the three provinces. It is unlikely that any of these major expenditures would be substantially affected by union. Education and other services would continue to cost approximately the same for the whole area whether there were one government or three; debt charges would still have to be carried, presumably by the new unit, but in effect by the same people. It is often assumed that savings could be made from a reduction in the overhead costs of government, especially from a reduction in the numbers of lieutenant-governors, executive councils, legislative assemblies, and departmental offices. The costs of these items in the year 1936 were as follows:—

EXPENDITURES OF THE PRAIRIE PROVINCES ON LEGISLATION AND GENERAL GOVERNMENT IN 1936*

(Thousands of dollars)

—	Alta.	Sask.	Man.	Total
Legislation:				
Lieut. Governor's office	3	6	5	14
Government House Maintenance	17	14	8	39
Legislative Assembly	153	131	116	400
Legislative Library	4	10	9	23
Other Legislation	3	8	.....	11
	180	169	138	487
General Government:				
Ministers of the Crown	84	78	51	213
General Departmental Offices	1,285	1,126	738	3,149
	1,369	1,204	789	3,362
Total	1,549	1,373	927	3,849

* In addition elections, voters' lists, etc., involved a cost of $140,000, land titles or registry offices cost $401,000, and civil service superannuation funds cost $483,000, but these items would not likely undergo a substantial reduction by the union. Figures compiled from the Commission's Public Accounts Inquiry.

It seems probable that a single legislature would be larger than any one of the three existing legislatures and hence the item of $400,000 for legislative assemblies could not well be reduced by more than one-third, or $133,000; the item of $213,000 for Ministers of the Crown could not, for the same reason, be reduced by more than $100,000. The possible savings in the item of $3,149,000 for general departmental offices are not capable of measurement, but it seems possible that, over a period, certain head office costs might be reduced by the amalgamation of government departments. The field staffs of many branches of government, such as highway departments, school inspection staff, etc.,

[1] The proposal to reduce the number of provincial governments is distinct from the proposal advanced on one or two occasions to the Commission, and frequently heard in public discussion, that all provinces should be abolished. Apart from the merits or demerits of this latter proposal it is clearly beyond our terms of reference, as our instructions in the Order in Council appointing the Commission clearly require "the retention of the distribution of legislative powers essential to a proper carrying out of the federal system".

which provide detailed services to the people would, however, probably cost as much as at present, and might even cost more, by reason of higher travelling and supervision expenses in the larger unit. It is doubtful if any substantial amount could be saved in this item by a union of the provinces that could not be saved by efficient reorganization in each of the three provinces. But even if the substitution of one province for three resulted in a saving of a full two-thirds of the present total cost of the items listed (which is much more than would be possible), the saving would amount to slightly more than $2,500,000, an amount which represents less than 5 per cent of the present current expenditures for the three provinces.

The remaining large item of expenditure which might be affected by amalgamation of provinces is the item of debt charges. It is conceivable that the greater economic stability of a larger and more diversified area might improve the credit of the region. As maturities occur it is possible that a single province might be able to refund at lower rates of interest than any one of the three provinces separately. We discuss elsewhere[2] the whole question of public debt, but we should note here that amalgamation is not the only, and is perhaps not the best, way to secure relief from high debt charges.

As an argument in favour of amalgamation of the provinces it is sometimes suggested in public discussion that a single legislature might be more frugal, since there would be fewer members seeking favours for their constituents. We are not in a position to judge of the merits of this contention. In any case it is for the people of the provinces concerned to consider whether or not their present expenditures on these matters could be reduced and if so, whether or not amalgamation is the best method of reducing them.

Whatever the financial advantages of union might be, we have already pointed out that any practical discussion of the subject must take account of political factors lying outside the scope of this investigation. The Commission addressed inquiries to the Premiers of Manitoba and Saskatchewan as to their opinion of the merits of union.[3] Both were ready and willing to examine the question, and the Premier of Manitoba went so far as to suggest[4] that this Commission should study (with the three provinces concerned) the proposal for consolidation. As the Province of Alberta declined[5] to appear before us we could not act on this suggestion and we, therefore, leave the broader aspects of amalgamation to be examined by the provinces concerned.

Assuming no general changes (such as we have recommended elsewhere) in Dominion-provincial financial relations, there would be a strong case for union of the Prairie Provinces on the ground that it would improve the general credit standing of the region. By union the economic risks of the three provinces would be pooled, and the resulting increase in financial stability for the region would tend to diminish the need of Dominion assistance in times of crop failure. We believe, however, that our general financial proposals (Plan I) will meet the financial difficulties of the Prairie Provinces (including their credit position) much more equitably and efficiently than union alone would do. Plan I does not, of course, preclude union which might well be an additional support for the public credit of the region.

It has also been suggested that a single Prairie Province, which would be able to speak in Dominion affairs with one voice on behalf of the whole prairie region, would exercise greater influence in favour of advantageous Dominion policies, and against policies believed to be unfavourable to the interests of the region. These, as we have said, are matters for the consideration of the three Prairie Provinces.

We should point out, however, that, if the proposal of union is ever to be considered, it should be examined without delay as provincial loyalties are developing and will strengthen with the years.[7]

[2] See pp. 122*ff*.
[3] Ev. pp. 1135-52 and pp. 2271-74.
[4] Ev. p. 1152.
[5] Ev. p. 6625.

[7] Analogous to the savings from a union of the three provinces are the possible savings from a consolidation of the three Prairie universities (and conceivably of the University of British Columbia), which are largely supported by provincial grants. This matter was investigated at the public hearings in the three Prairie Provinces, when the presidents of the three universities appeared before the Commission. The matter had already been under consideration by the four western universities and was the subject of a conference in 1932. It appears that such steps in the direction of economy as are practicable have already been taken. An understanding has been reached that each university will place emphasis on different branches of instruction: the University of Saskatchewan on agricultural training, the University of Manitoba on electrical engineering, the University of Alberta on mining engineering are examples. (Ev. p. 1933.) Many of the professional schools, such as Law, Pharmacy, Household Science, etc., which are found in more than one university nearly pay for themselves in fees, and it is an undoubted convenience to the people of each province to have such schools near at hand. The largest apparent multiplication of costs is in the engineering schools but to consolidate such schools would, it appears, result in very small savings. Apart from the new capital expenditures necessary for buildings and equipment any consolidation would require an almost exact repetition of existing salary costs as, in each university, many classes have reached an optimum size and could not with efficiency be increased. (Ex. 82.) (Ev. pp. 1932-33; 1936-38; p. 1055.) It would thus appear that savings from an amalgamation of the three Prairie universities would be small, and the intangible losses would obviously be considerable. Understandings between the four western universities for co-operative specialization in teaching activities should be continued and expanded in scope, and might indeed be extended to other Canadian universities.

(b) Union of the Maritime Provinces

Some of the considerations applicable to the union of the Prairie Provinces apply also to the proposal for union of the Maritime Provinces. The major items of expenditure such as education, public welfare, highways and debt charges would remain substantially unaltered, but savings might be effected in overhead costs for such items as executive government and legislation and, after a time, in certain head office costs resulting from amalgamation of government departments.

In 1936 the total current expenditures of the Maritime Provinces amounted to $16,815,000 of which $5,300,000 went for debt charges.

The following table gives the amounts spent in the year 1936 on the items likely to be affected by a union of the three Maritime Provinces:—

EXPENDITURES OF THE MARITIME PROVINCES ON LEGISLATION AND GENERAL GOVERNMENT, 1936

(Thousands of dollars)

—	P.E.I.	N.S.	N.B.	Total
Legislation:				
Lieut. Governor's office	.....	.....	2	2
Government House Maintenance	.....	3	.....	3
Legislative Assembly	15	49	74	138
Legislative Library	3	3	1	7
Other legislation	.....	6	.....	6
	18	61	77	156
General Government:				
Ministers of the Crown	13	37	44	94
General Departmental Offices	90	262	272	624
Other general government	.....	199	18	217
	103	498	334	935

Even if the substitution of one province for three resulted in a saving of a full two-thirds of the present total cost of the items listed (which is much more than would be possible) the saving would amount to about $721,000, or about 4·3 per cent of present current expenditures for the three provinces.

The prospective savings of a Maritime union become smaller when several local factors are considered. In all three provinces the salaries of ministers and officials and sessional indemnities for members of the legislature are low, and a larger governmental unit would probably involve higher sessional indemnities, higher salaries for Ministers of the Crown and officials, as well as higher travelling expenses. Costs of social services and education in this region are also low at the present time and may be expected to rise, whether or not the provinces unite. The credit rating of the Maritime Provinces has been such that little, if any, saving in interest charges on public debt could be expected. No express suggestion was made to us that union of the Maritime Provinces would strengthen politically the Maritime region in relation to other regions in Canada, and this possibility is a political matter on which it would be out of place for us to offer conjecture. It may be observed, however, that provincial loyalties are more deeply rooted in the Maritime Provinces than in the Prairie Provinces because of their longer history as separate provinces. It is significant that each of the Premiers of the Maritime Provinces, when requested by the Chairman for his opinion on union, was adverse to the proposal and expressed the view that there was no large measure of support for Maritime union among the people of the three provinces.[8]

We have thus far discussed the two proposals for provincial union from the point of view of economy in provincial government costs. They should also be considered from the standpoint of savings to the public and to the Dominion Government. From the standpoint of the citizen in his relation to government there are many factors to consider—the costs of tax compliance, the costs of statistical returns, the costs of political activity. Some individuals and some corporations have to deal with more than one provincial government. Their costs would obviously be decreased had they to deal with one government instead of three. On the other hand the cost of attending a more distant provincial capital to conduct their business with the government would be greater.

By union of three provinces into one larger unit, there would undoubtedly be some savings in Dominion governmental costs. How far the present offices and officials maintained by the Dominion in three provincial capitals could be replaced by one set of offices and officials in the new provincial capital, it is impossible to say. There would be a saving in salaries of Lieutenant-Governors, and certain of the chief Dominion officials in the provinces might be able to assume jurisdiction over the larger area, but it seems probable that most of these officials would, for the sake of efficiency and public convenience, require to be retained in the larger new unit.

[8] Ev. pp. 4222-26 (N.S.); pp. 4545-48 (P.E.I.); pp. 9056-57 (N.B.)

(c) Appeal Courts, Maritime and Prairie Provinces

There is one proposal, analogous to provincial union but falling short of it, which we feel should be given serious consideration in view of substantial savings that might result for both the Dominion and the provinces concerned. At the public hearings of the Commission in Charlottetown the question of the feasibility of a Maritime Court of Appeal was raised, and subsequently the Commission arranged to obtain information concerning the number of criminal and civil appeals heard in the appellate courts of the three Maritime Provinces and the three Prairie Provinces. For purposes of comparison, statistics of appeals in the Ontario Court of Appeal were also obtained. The following table gives the results of these inquiries:—

Appeal Cases 1929 to 1938

Year	P.E.I.	N.S.	N.B.	Man.	Sask.	Alta.	Maritime Total	Prairie Total	Ont.
1929	11	44	32	204	127	173	87	504	522
1930	8	89	29	207	138	195	126	540	615
1931	10	62	26	246	149	220	98	615	741
1932	13	96	29	185	110	160	138	455	740
1933	17	65	31	205	96	166	113	467	653
1934	31	46	36	258	93	201	113	552	590
1935	25	57	27	216	82	192	109	490	589
1936	22	52	25	227	74	163	99	464	615
1937	20	42	27	212	90	159	89	461	496
1938	35	47	17	204	66	159	99	429	523
Average	19	60	28	216	103	179	107	498	608

In Ontario and in the three Prairie Provinces special divisions of the Supreme Court of the Province sit to hear appeals. In the Maritime Provinces a rigid division between trial judges and appellate judges is not made. The following table gives the number of judges of the Supreme Court, and the respective population, in each province under consideration:—

Supreme Court Judges in Proportion to Population

—	Trial Judges	Appeal Judges	Total	Population
Prince Edward Island	.....	.....	3	93,000
Nova Scotia	.....	.....	7	542,000
New Brunswick	.....	.....	7	440,000
Maritime Total	.....	.....	17	1,075,000
Manitoba	6	5	11	717,000
Saskatchewan	7	4	11	939,000
Alberta	6	5	11	778,000
Prairie Total	19	14	33	2,434,000
Ontario	13	8	21	3,711,000

These figures disclose that, while Ontario has one Supreme Court judge for every 177,000 of population, the Prairie Provinces have one for every 74,000 and the Maritime Provinces one for every 63,000. It may well be that for the expeditious hearing of cases the number of judges engaged in trial work cannot be substantially reduced, but we fail to see how the same argument can apply to the hearing of appeals. The statistics given in the first of the two preceding tables cover a ten-year period and should be representative. While it is undoubtedly true that the time required for hearing and consideration differs greatly between one appeal and another, there is no reason for supposing that fifty appeals in the Prairie Provinces could, or should, require longer to hear or decide than fifty appeals in Ontario. If over a ten-year period the Ontario Court of Appeal of eight judges has been able to dispose of an average of 608 appeals each year it is difficult to understand why fourteen appellate judges in the Prairie Provinces are necessary to deal with a yearly average of 498 appeals. In the Maritime Provinces such an exact comparison is not possible, as judges hearing appeals are also engaged in trial work, but it seems likely that the work of hearing appeals in the courts of these three provinces could be done by fewer

judges than the total number now so engaged. It seems to us not unreasonable that the number of appellate judges in the Prairie Provinces might be reduced by six, and the number of judges in the Maritimes by at least four.

There are certain differences in the statute law of the six provinces under consideration, but in all the basic common law is the same, and the trend in recent years toward uniformity of statute law suggests that such differences as exist would be no insuperable bar to the creation of a regional court of appeal in each of the two areas. It is possible also that over the larger areas appellate judges would be able to enjoy greater variety of experience than they can now have.

We suggest, therefore, that the appropriate authorities should consider the feasibility of establishing a Maritime Court of Appeal and a Prairie Court of Appeal. We believe that if sittings were held in succession in each of the provincial capitals no substantial delay or inconvenience to the public would arise. A saving of the order of $100,000 annually could be achieved in this way, and in our opinion there would be a gain, rather than a loss, in efficiency.

(d) The Quinquennial Census

One minor economy, which relates to the special position of the Prairie Provinces, may be conveniently discussed here. The quinquennial census taken in the three Prairie Provinces was instituted * in order that the subsidies based on population might be kept in close relationship to the actual population of these provinces which was expected to increase rapidly. A readjustment of their subsidies is made at intervals of two-and-a-half years and is based either on the census figures or on intercensal estimates. The need for this frequent readjustment has disappeared, as the rate of growth of their population does not now exceed that of the other provinces. We shall note elsewhere the tendency to continue enterprises after the need for them has ceased, and there is a prima facie case for believing that the quinquennial census is an instance of this tendency. In the five year period 1931-36 the Prairie Provinces failed to hold their natural increase.** The cost of the 1936 Prairie census was $983,000 and as it, therefore, appears that an economy of the order of $100,000 a year might be made, we recommend that the special Prairie census be discontinued. But although this quinquennial census was established for reasons which are no longer valid it may have come to serve important subsidiary purposes which may well have their counterpart in other provinces. There is a growing tendency in other countries to take a census more frequently in order that governments may be supplied with accurate indices of the changing aspects of society. We have made no investigation as to the desirability of more frequent censuses for Canada as a whole and can, therefore, express no opinion as to their desirability. The point we make here is that there is now no valid reason for treating the Prairie Provinces differently from the rest of Canada in the matter of the census.

* In Manitoba in 1884, *Statutes of Canada*, 48 Vict., c. 50, in the other provinces by the Alberta Act and the Saskatchewan Act (1905), 4-5 Ed. VII, cc. 3 and 42.

** See W. J. Waines, *Prairie Population Possibilities* (mimeographed), Ch. III.

Chapter II

AVOIDANCE OF OVERLAPPING AND DUPLICATION

The preamble to the Order in Council appointing the Commission contains the following recital:—

> "3. That governmental expenditures are increased by overlapping and duplication of services as between the Dominion and provincial governments in certain fields of activity. . . ."

Moreover, the Commissioners are specifically instructed (3 (*c*) of the Order in Council),

> "to examine public expenditures . . . in general, in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration. . . ."

It should be noted that the Commission's attention is drawn to "overlapping and duplication of services," not to the nominal duplication of departments of government. The mere existence of ten departments of agriculture or of public health does not in itself imply duplication of services. A function may be divided between a Dominion and provincial department in such a way as to avoid overlapping. But fields of activity which are regulated and served by both Dominion and provincial departments deserve special examination in such an inquiry as this, because the situation lends itself readily to overlapping unless care is taken to avoid it.

The Commission's instructions did not call for a searching examination of the efficiency with which every unit of government performs the functions assigned to it, and indeed the elaborate and detailed investigation necessary could not appropriately have been made in conjunction with a general examination of Dominion-provincial relations. This survey is primarily concerned with the question whether there is extensive physical duplication between Dominion and provincial departments of government. But overlapping is only one of several unsatisfactory conditions which may exist when two governments share a field of activity. There may be failure to occupy the whole field, which may be termed "underlapping" or neglect; or the field may be divided illogically and inefficiently, leading to waste and friction. Our general inquiry on overlapping and duplication also threw some light on administrative tendencies which increase government costs within individual governments, and some suggestions are made toward reducing them.

A high degree of administrative co-ordination is more difficult to attain in a federation than in a unitary state. The relative effectiveness of single authority as contrasted with divided or dual control is obvious in any sphere of administration. Within a federal state the advantages of single authority are possible in fields exclusively assigned to one or the other government. But dual control is inevitable in those areas of concurrent, divided and contentious jurisdiction which are characteristic of federal states, and which tend to increase with the growing complexity and interdependence of society. Efficiency and harmony in government administration in such fields depend upon a measure of good-will, give-and-take, sincere and positive co-operation of the governments concerned, on both political and administrative levels. These are conditions difficult to achieve and still harder to preserve.[9]

The administrative problems inherent in all federations are increased if the member states or provinces differ widely in size, wealth, and political and social outlook, because it becomes impossible to fit national activities precisely to the needs of each of the provinces. In Canada there are several jointly occupied fields in which the Dominion provides supplementary services through bureaux for consultation, direction and research. The problem is one of complementing or supplementing each of the highly varied provincial services. In supplying these services some provinces are earlier in the field, adopt more aggressive policies, spend far larger sums. Any attempt to match national policy to all of these at once encounters a dilemma. To complement the activities of all provinces on the scale needed by the smaller and less aggressive provinces results in duplication of services for the larger provinces. To match activities with the more aggressive provinces means that the needs of the smaller and fiscally weaker provinces will be neglected. Such a dilemma may be avoided in the

[9] See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction.*

field work of the Dominion Government by stressing these national services in those provinces where they are most needed and minimizing them elsewhere. Such adjustment is more difficult if the national service consists of a branch or bureau operating at each provincial capital. Even regional adjustment may lead to charges of discrimination, and in practice the Dominion Government usually steers a middle course which results in some measure of duplication with the services of the stronger provinces and some inadequacy of service for the weaker ones. In a federation of provinces of unequal size and resources it is difficult to see how this basic dilemma can be avoided.

These factors point to the inevitability of some waste and maladjustment in such a federation as the Dominion of Canada, even if a high degree of co-operation and unanimity can be maintained between the several governments. The aim of administrations must, therefore, be to confine waste as much as possible to what is inherent and unavoidable.

In order to determine the extent of overlapping between governments the Commission attempted to examine in its public hearings the principal officials of relevant departments of Dominion and provincial governments. All but two Governments (Alberta and Quebec) co-operated in supplying the names of appropriate officials and permitting them to appear before the Commission. Although under the Inquiries Act the Commission could have subpoenaed officials of any government, it was not deemed expedient to ask civil servants for information if the government concerned objected. In addition to the public hearings two of the Commission's staff made a special survey of Dominion and provincial services. We now proceed to summarize by services the results of our inquiries.

Agriculture

Measured by total expenditures, agriculture is the largest field of concurrent service,[10] and the existence of nine provincial departments of agriculture as well as a Dominion department appears to give rise to a popular conviction that duplication in this field is very extensive. Comprised within the term "agriculture" is an intricate network of diverse services and regulations included under the four general headings: production, marketing, research and promotion. These break down further into much smaller divisions. *Research* involves local matters such as soil analysis and matters common to all provinces, or even international in interest, such as plant hormones or certain animal and plant diseases. *Marketing* includes the procedure by which a market-gardener exchanges his produce in the local village, as well as the highly organized international grain trade. In this complex field there are activities so obviously local that no one questions the desirability of their provision or regulation being provincial; others are as obviously national, for it is the Dominion Government alone which can efficiently provide or regulate them. In between are activities not so easy to allocate since they have both local and national aspects. The relative importance of provincial and Dominion interests in these activities alters as the Canadian economy becomes more integrated and provincial economies more interdependent, and as the technology of farming changes. The constitutional provision for agriculture in 1867, which made it a subject of concurrent jurisdiction with the provision that provincial enactments were effective only "as long and as far" as they were "not repugnant to any Act of the Parliament of Canada", appears to have permitted the vast growth of government activity in this field to take place without serious friction between jurisdictions. Although the division of activities which has been reached today is essentially the result of a long process of trial and error rather than design, it is not markedly different from what would be dictated purely by considerations of logic and efficiency.

Dealing first with the extent of duplication, the Commission did not find, either in its public or private investigations, any basis for the popular belief that the activities of Dominion and provincial governments overlap extensively, or that by complete elimination of what overlapping exists there would be any substantial reduction in the present cost of agricultural services in Canada.[11] A few minor cases came to light, but the potential economies, disregarding for the moment other values that may be involved, would be a mere drop in the bucket when measured against the annual Canadian tax bill or even against the annual sums spent upon agriculture. The amount of duplication in agricultural services is less now than it was some years ago, improvement having resulted from two

[10] Dominion estimates for 1938-39 for agricultural services were $9,937,000, the total provincial estimates for the latest available fiscal year were $6,742,000, giving a total of $16,679,000.

[11] Ex. 167, Memo. Dominion Dept. of Agriculture, pp. 8-11; Ex. 212, Memo. B.C. Dept. of Agriculture; Brief of Man., Pt. VIII, p. 15; Ex. 12, Memo. Man. Dept. of Agriculture; Brief of N.B., p. 69; Ev. (N.S.), p. 4149; Ev. (Ont.), pp. 7853, 7865-66, 7873; Ev. (P.E.I.), p. 4604; Ex. 71, Memo. Sask. Dept. of Agriculture.

quite different factors: (*a*) a concentrated attack on the problem as the result of public criticism; and (*b*) the retrenchment in all government expenditures consequent upon the depression (especially by certain provincial governments).

Present relationships betwen the provincial departments and the Dominion reflect to a considerable measure the fiscal strengths and fortunes of the several governments. During the depression agricultural services were sharply curtailed by almost all governments, and restoration has proceeded unevenly with the arrival of better times. In those provinces which have not found it practicable to restore expenditures to earlier levels, the Dominion Government is now providing a much larger share of the combined services than it was before the depression. This relative expansion by the Dominion is accepted as unavoidable, especially by the smaller provinces, or at least as preferable to complete neglect of services formerly provided by the provinces but now beyond their means. Certain provincial leaders, however, hold that it would be more satisfactory if the Dominion, rather than expanding its own services to meet the deficiencies of the provinces, would provide grants-in-aid so that the provinces could directly undertake services which, though it is not now financially feasible to undertake them, are of a character likely to respond more profitably to provincial than to Dominion direction. The danger of additional duplication in the future, as the provinces restore their services to pre-depression levels because of either a return of better times or a reallocation of revenues and obligations as recommended in another part of this Report, should be noted. When all the provinces once more find it possible to meet all those agricultural services which are logically of a local nature, it will be necessary to reconsider carefully the division of services between them and the Dominion, and the latter government may find it conducive to efficiency and harmony to retire from certain fields.

A division of agricultural activity between the Dominion Government and the provinces suggested both by logic and experience would allot to the Dominion the following fields:—

(1) Marketing, grading and inspection, except for local distribution of commodities locally produced;

(2) Plant and animal protection from pests and diseases especially those introduced from abroad;

(3) Research of a general nature;

(4) Certain national and international aspects of production and of agricultural economics.

The provinces would then undertake:—

(1) Extension and promotion;

(2) Organization of farmers' activities, including co-operative marketing;

(3) Production, except as under (4) above;

(4) Local aspects of research, such as soil surveys;

(5) Local interpretations and use of Dominion marketing and commercial intelligence services;

(6) Local marketing of commodities locally produced.

This is not dissimilar to the division now in effect. There are some activities (e.g. production) which combine national and local aspects in a manner difficult to divide with complete satisfaction. Marketing and grading have been dealt with in another place.[12]

The finding that gross physical overlapping does not exist must not be taken as assurance that waste of public funds does not occur in the fields of agricultural service and regulation. Overlapping between Dominion and provincial departments is by no means the only potential cause of such losses. It is possible that there is avoidable overlapping between a department of agriculture and other departments within the same government. Duplication can also occur within a department. In this connection we think that great care should be taken by the Dominion Department of Agriculture which has undertaken so many varied activities and has grown to such an enormous size that overlapping and waste may easily occur within the Department unless there is constant effort to prevent it.

The Commission's opinion is that substantial waste and loss in agricultural services arise from quite another condition, namely, the tendency for government policies to get into ruts. What is here said applies to government operations generally. It is always easier to continue traditional services than to make innovations. In private, competitive business, the penalty for decadence is swift and sure. In the more sheltered world of government monopoly, stereotyped and unprogressive policies may escape detection and elimination much longer. The dynamic and swiftly-changing character of agricultural problems today demands highly flexible and resourceful methods of attack. The Commission recommends for the earnest consideration of all governments the frequent examination and reappraisal of all services, schemes and enterprises,

[12] The difficulties of enacting marketing legislation are discussed at pp. 54*ff* of this Report. While in a sense the attempts to enact marketing legislation have involved duplication of effort and expense, the difficulties are constitutional rather than administrative, and we do not, therefore, deal with them in the present section.

in the light of modern needs, so as to prune out the dead wood and keep the administrative structure vital and effective. One or two specific devices which may be of value in this connection are suggested at the end of this chapter. Governments can save themselves future difficulty by launching new policies, so far as possible, on a "project" or interim basis, subject to careful scrutiny before becoming permanent. In the world of private enterprise the profit motive usually assures a periodic overhaul of activities, but governments need to devise some substitute. The retrenchment due to the depression impaired services of all kinds but in partial compensation it eliminated certain activities whose value had largely or wholly expired. From private and public evidence the Commission is satisfied that the waste due to outmoded, redundant or misdirected activities involves much larger amounts than any physical overlapping between services of different governments.

Within the limits of this Report a detailed consideration of all branches of agricultural services cannot be undertaken, but two services merit special attention.

Agricultural Research.—The nature and scope of agricultural research are such that it is difficult to co-ordinate. It is carried on by provincial universities and agricultural schools, by provincial departments of agriculture, by the Dominion Experimental Farms, by the Science Service Branch of the Dominion Department of Agriculture, by the National Research Council under the Minister of Trade and Commerce, and by private corporations. However, by far the greater part of agricultural research in Canada is carried on by the Dominion Government, or under its auspices. Modern agricultural research has become so highly technical and intricate that it would require a superman to keep authoritatively informed on all the lines of research being carried out in Canada and elsewhere at any time. Yet without this knowledge and the authority to co-ordinate all agricultural research in Canada a certain amount of duplication and misdirection is inevitable. However, such duplications are not without some value as checks. Moreover, even if it were theoretically possible, it might be unwise to attempt a rigid co-ordination of research with economy or even efficiency as the only criterion. The history of research proves that for best results you have to turn a good man loose with funds and freedom. Centralization is not necessarily beneficial. Our conclusion was rather that research should be kept decentralized among colleges and individual workers as much as possible. Duplication of research may, however, readily occur if there is lack of adequate information about projects under way or findings of completed projects. Careful records of all agricultural research activities should be available, and the findings of research workers collected as speedily and disseminated as widely as possible. Research programs should be co-ordinated so far as consistent with the encouragement of individual enterprise, and these functions can only be adequately performed by the Dominion. The relations between the National Research Council and the Department of Agriculture appear to call for continuous scrutiny. The benefits of agricultural research in Canada have been so vast in relation to the sums spent upon this activity that we hesitate to urge parsimony in this field. The price of skimping a few thousand dollars a year in research might be the elimination of the discovery of a Saunders.

Experimental Farms.—The experimental farm system is almost exclusively a Dominion activity, although several provinces operate demonstration farms or research stations doing similar work. The Dominion farms are used for both local and national research. The practical use of research discoveries involves conveying them to the farmer, and in many ways the agency which actually makes the discovery is in the best position to pass the information along. In this way the experimental farms branch out into agricultural education and extension. These are, by and large, fields of provincial jurisdiction, and all provinces make some provision for them through their own departments of agriculture and their agricultural colleges or university activities. It is also impossible to draw a sharp line between national and local research, and the Dominion farms cannot avoid undertaking research projects which have certain local aspects, and which in some instances are more likely to be effective if pursued under local direction. The farms are also actively concerned in production, which, as has been said, falls more logically into the provincial sphere. The scope for duplication of effort is large.

The opinion that most of the work of the experimental farms could be undertaken more effectively by the provinces was frequently stated to the Commission's special investigators. It was asserted that since the soil is a natural resource as much as the forest or the mine, the servicing and regulation of agriculture could be undertaken with greater flexibility and effectiveness by provincial authorities. It was contended that provincial

authorities were more intimately acquainted with the peculiar production problems of the region, with the problems of agricultural economics and of research, and that they could act more swiftly and flexibly in coping with local problems as they arose. The further argument was advanced that, since the provinces are concerned with education and extension, the logical arrangement would be for the experimental farms to be closely linked up with agricultural colleges and provincial departments of agriculture, the three bodies acting in intimate conjunction to tackle the basic problems of the region. Certain provincial premiers and ministers of agriculture were confident that if experimental farms and illustration stations were both left to the provinces they could be made to perform a larger and more useful part in agricultural production and education.

It should be noted that these views as to the experimental farm system are held by some, but not all, of the provincial leaders. Others express themselves as well satisfied with present arrangements and results. Hitherto the experimental farm system has been too expensive for most provinces to assume. It was said that several years ago the Dominion offered to retire from the field but the provinces, on counting the cost, declined the offer. It was argued that the substitution of systems of provincial experimental farms in place of one national system would almost certainly increase the total cost and increase the likelihood of duplication, and that it might result in great lack of uniformity. It was contended that there would still remain the national aspects of production and research, which might require a national farm system as well as nine provincial ones, and that some of the gains in flexibility supposedly inherent in provincial attacks on agricultural problems would be offset by a loss in stability and permanence in research programs, since agricultural policies would then be subject to the more erratic fortunes of provincial politics.

Apart from these matters of jurisdiction, the charge has been made that in certain provinces the number of experimental farms is larger than is strictly necessary; that political factors are responsible for their number; and that any effort to reduce them meets with so much local protest that it is not pursued. One competent authority asserted a smaller sum spent on fewer farms, more adequately staffed and equipped, would result in more and better work. It was estimated that as much as $100,000 a year might be saved in one province by such a step.

It is also urged by some critics that while the farms did excellent work in the pioneer stages, educating the farmers of the area in the farming techniques necessary for the soil and climate of the area, the need for such experiments sharply declined when suitable seed varieties, methods, suitable types of cattle, etc., had become established, and that routine experiments tend to survive indefinitely to a point of sharply reduced utility. The inference was that the programs of the farms were not shifting as they should from problems of diminishing importance to new problems of agricultural economics, marketing and production, with which agricultural communities are now faced.

On balance there is a prima facie case for the Dominion withdrawing from many of its activities in connection with experimental farms, and either for disposing outright of most if not all experimental farms and illustration stations, or for handing them over to the provinces. Admittedly, there are technical questions involved which the Commission has not had the time nor the opportunity to investigate fully. An inquiry by technically competent authorities would probably be advisable before action is taken. But it should be pointed out that, if the financial recommendations of this Report are adopted, the financial obstacles against certain provinces taking over experimental farms will have been removed. In any case the Dominion should carefully reappraise its whole experimental farm program.

Grants to Fairs and Agricultural Organizations

The policy of government grants to agricultural organizations should also be carefully reappraised. Once such grants are begun, there is a tendency to continue them in a routine way. Dominion grants to such institutions were inaugurated as a war-time measure to assist in the stimulation of production. Except for grants to exhibitions and fairs of a national and international scope, it is suggested that the Dominion should withdraw from the field, leaving to the provinces, as a part of their production policy in connection with the provincial departments of agriculture, the responsibility for making such grants as they deem wise.

* * * *

What is said above is not intended to imply a lack of co-operation between the several authorities under the existing system. In most provinces the activities of the Dominion experimental farms and the extension and promotion work directed by the provinces are knitted efficiently together. In at

least one province the provincial and Dominion authorities even choose their new personnel with this harmony in view. In general we commend the high level of co-ordination which exists between the provincial and Dominion officials of the several departments of agriculture.

COLLECTION OF TAXES

Duplication of services for the collection of taxes obviously increases costs both of government and of tax compliance. We have dealt with the latter elsewhere.* Here we deal only with increased costs of government. Though extensive duplication does not exist in the sense of duplicate organizations for the collection of similar taxes, there is waste in that simpler and less expensive machinery might be used to collect present taxes.

In our financial proposals we recommend that personal income taxes, corporation taxes and succession duties should be levied solely by the Dominion Government and we there discuss certain advantages of economy, equity and efficiency in having these taxes collected by one agency. If the recommendations concerning these taxes are implemented the overlapping and duplication of governmental costs of collecting these taxes will be automatically eliminated. But even if there is no redistribution of revenue sources, the advantages of a single system for the collection of at least personal income taxes and corporation taxes are great. It is obvious that if the same information on which both the Dominion and a province base their calculations of income taxes can be supplied only once instead of twice, the governmental cost of checking the return and the taxpayer's cost of preparing the return are materially reduced.

At the present time the Dominion collects, in addition to its own income tax, similar taxes for Ontario, Manitoba and Prince Edward Island, to the apparent satisfaction and benefit of all parties.[15] It was stated that a single system of collection is possible wherever the two definitions of "income" are the same, even though deductions and exemptions are different.[16] In hearings in Victoria it was stated that joint collection of Dominion and British Columbia income taxes was impossible because "taxable income" in the two statutes was different.[17] While there may be differences in the present definitions, it seems evident that the two definitions of "income" could be made identical and the same results could be substantially attained by different schemes of deductions and exemptions. Were this done it would be possible to avoid the duplication of tax-collecting offices, the increased governmental expense of audits, and unnecessary costs and annoyances of tax-compliance to the taxpayers. The case for joint collection of personal income taxes is overwhelmingly strong, whether the proceeds of such collection are retained by the Dominion or divided between the Dominion and province in which collections are made. Similarly provision should be made for collection by the Dominion Income Tax Division of municipal income taxes if they are retained, at least in so far as these are really income and not property taxes.

Many of the same considerations apply to the collection of corporation taxes. Numerous representations protesting against present arrangements were made in public hearings by business organizations.[19] These submissions did not in general complain about the taxes as such, but attention was directed toward the excess cost of collecting them, both to governments and taxpayers. All provinces have built up extensive organizations for collecting such taxes, and the cost is substantial. Our recommendations with regard to the taxation of corporations were framed to replace provincial taxes, which are expensive to collect, by an extension of the Dominion tax on corporate income which is collected in any case. This change would reduce the total cost of collection, and would remove the cost of tax-compliance arising from the preparation of multiple tax returns calculated on different bases.

If our recommendation that the Dominion should have sole jurisdiction to levy corporation taxes is not carried out, little, perhaps, can be done to diminish this cost by unified collection except in the field of income taxes on corporations. Other types of provincial corporation taxes are so different in the several provinces that little advantage would be gained by Dominion collection, even if it were feasible.

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* See p. 154.

[15] Ev. pp. 3578, 3584. See also Ont. Brief Pt. II, p. 67. Ev. (Ont.), p. 7609.

[16] Ev. p. 3579.

[17] Ev. pp. 5370-76. Ex. 185, Memo. B.C. Dept. of Income Tax, pp. 4-5.

[19] Ex. 88, Brief of Canadian Manufacturers' Ass'n; Ex. 267, Brief of Citizens' Research Institute; Ex. 394, Brief of Canadian Chamber of Commerce; Ex. 188, Brief of Associated Boards of Trade of B.C.; Ex. 202, Brief of Victoria Chamber of Commerce; Ex. 268, Brief of Toronto Board of Trade; Ex. 343, Brief of Chambre de Commerce de Montréal; Ex. 107, Brief of Chartered Banks of Canada; Ex. 113, Brief of Canadian Federation of Mayors and Municipalities; Ex. 92, Brief of Canadian Life Insurance Officers' Ass'n.

Complaints were also made concerning duplication between the Dominion and certain provinces in the collection of stock-transfer taxes.[20] These taxes on the transfer of securities are imposed by the Dominion, by Ontario and by Quebec, and an audit is conducted by all three governments. An unnecessary expense both to governments and to taxpayers is thus incurred. We think that for these taxes a single collection and a single audit would be appropriate and that savings in cost both to governments and to taxpayers would thereby result.

PUBLIC HEALTH

The existence of a Dominion Department of National Health, provincial departments of health, and municipal organizations dealing with the same general service offers some ground for suspicion of unnecessary duplication, but our inquiries, both public and private, satisfied us that public health has local, provincial and national aspects which justify the existence of administrative machinery at all three levels, and that no material overlapping occurs at present among them.[23]

Expenditures by the Dominion Government for quarantine and leprosy, for inspection of immigrants, for the treatment of sick mariners, for disabled veterans, for inmates of penitentiaries and for Indians are not duplicated in any way by the provinces. Jurisdiction in all these instances is expressly conferred by, or clearly implied from, the British North America Act. Other important branches of Dominion expenditures in this field provide for the administration of the Food and Drugs Act, the Laboratory of Hygiene and the division of public health engineering. The last named service inspects water and milk supplies on common carriers engaged in international and interprovincial traffic and the sanitary conditions in Dominion buildings and parks. The Commission did not discover any duplication of these services by the provinces, though it is possible that some saving could be effected by the purchase of certain services from the provinces as an alternative to the maintenance of Dominion organizations for the purpose.[24] The annual saving would not be large, however, and there may be off-setting advantages in the present arrangement which outweigh the financial considerations. It is recommended that this possibility be investigated and the method be adopted wherever, on balance, it seems advisable to do so.

Several new Dominion services touch more closely upon the provincial sphere (child and maternal hygiene, epidemiology, industrial hygiene, and publicity and health education) but we are satisfied from our inquiry that the danger of duplication has been kept in mind in establishing the new services and its extent kept to a minimum, and that the establishment of such services on a national scale was at the request of certain provinces which will derive material benefit from them. It is true that they will, in some measure, duplicate work already carried on by two or three of the larger provinces, but some such duplication is inherent in federalism. In any event, unless the Dominion expenditure expands far beyond present intentions, the cost of such duplication will be small.[25] These new services are provided by consultative and research bureaux which are available at the need of the several provinces, and which co-ordinate and disseminate medical information more efficiently than a series of similar provincial bureaux would be likely to do. If the financial recommendations outlined elsewhere are implemented, the fiscal capacity of the several provinces to support adequate medical services may be brought up to a more approximate level, and in that event the Dominion Government may need to reappraise its health policies so as to avoid duplication with services that the provinces are then able to provide for themselves.

POLICE SERVICES

In six of the nine provinces the enforcement of provincial as well as Dominion statutes is entrusted to the Royal Canadian Mounted Police under agreements between the Dominion and the provinces concerned. The province pays the Dominion $1,000 per year for each member of the Royal Canadian Mounted Police required for provincial service. The other three provinces, Ontario, Quebec and British Columbia, continue their own provincial police forces. In these provinces, accordingly, two forces operate (in addition to municipal officers). In the main they are engaged in quite distinct work, but it is all a part of the general task of law enforcement. In these three provinces a certain amount of duplication exists and

[20] Ex. 108, Brief of Investment Dealers' Ass'n, p. 15; Ex. 95, Brief of Dominion Mortgage and Investments Ass'n, pp. 17-18.

[23] Ex. 137, Memo. Dom. Dept. of Health, Ev. pp. 3820-34; Ex. 191, Memo. Health and Welfare Services, B.C.; Ex. 13, Memo. Man. Dept. of Health, Ev. pp. 728-36; Brief of N.B., p. 43; Ev. pp. 8670-71A; Ev. (N.S.), pp. 4130-31; Ex. 319, Memo. Ont. Dept. of Health; Ev. (P.E.I.), p. 4581. See also this Report, pp. 32*ff*.

[24] *E.g.*, inspection of milk and water supplies on common carriers. It is suggested at p. 35, that health services for Indians might be purchased by the Dominion from provincial departments.

[25] The Dominion estimates for 1938-39 for these services amounted to about $60,000.

considerable sums could be saved by the negotiation of arrangements with the Dominion Government similar to those now in effect in the other six provinces. These three provinces could be policed by a single force which would be somewhat smaller than the present combined Dominion and provincial police forces operating in them, and there would in addition be some saving of administrative overhead. The standing offer of the Dominion Government to extend its present arrangements to the three provinces has not been accepted because of considerations which in the opinion of the provincial governments concerned outweigh the financial savings promised by the change.

Provinces which have entered into agreements with the Dominion have been able to cut their police costs in half.[26] Analogous savings in the case of Ontario, Quebec and British Columbia would be of the order of $350,000 for each province, or a grand total of about $1,000,000 a year.[27] Although this sum would be saved to the provincial taxpayer, the total Canadian tax bill would, however, not be relieved to that extent, since the Dominion Government performs the service for the province at considerably less than cost. But it appears that approximately a total of $500,000 annually could be saved if the Dominion were to make arrangements for police services with the three remaining provinces similar to arrangements with the other six. This saving is sufficiently great to warrant careful consideration, though there are other than financial considerations involved.

The chief argument advanced for retention by the province of its own police service is the desirability of the closest possible co-ordination between the provincial attorney-general's department, the crown attorneys of the province, and the law-enforcement officers.[28] It was represented to us that since the provincial legislature and the provincial executive are responsible to the people of the province for the manner and method of law enforcement, it is desirable that the province have complete control of its own police force. A supplementary practical consideration, of special force in British Columbia, is that some provincial police officers act also as general provincial agents in certain civil matters. It was suggested that Dominion police could not be expected to perform these services in full, if at all, or in any case as satisfactorily, because of their lack of knowledge of the local situation and the more inflexible character of a Dominion-wide organization. As a result the province might have to enlarge its civil service to carry out functions now performed by the provincial police.

As against these arguments it was asserted that the efficiency of law enforcement across Canada as a whole would be materially improved by the greater co-ordination of activity that would result from further unification. The weakness arising out of divided control was illustrated by the experience of the several forces in coping with the "sit-down" strike of single unemployed in the city of Vancouver in 1938, where the confusion over jurisdiction was said to have hampered the police materially in their efforts to deal with the situation.[29] Moreover, the arguments in favour of the maintenance of provincial forces were, presumably, applicable to each of the six provinces which have entered into agreements with the Dominion, but, on the whole, the provinces within the agreements are satisfied with present arrangements, and, with the exception of Alberta, show no disposition to go back to a force of their own.[30]

UNEMPLOYMENT RELIEF AND OLD AGE PENSIONS

Elsewhere important recommendations are made concerning the reallocation of responsibilities for unemployment.[31] If these changes are made, the powers and responsibilities of the several units will be clearly defined and duplication and other administrative waste in the handling of relief should be materially reduced. In this section it is merely proposed to call attention to the duplication which exists under the present arrangements.

Both unemployment relief and old age pensions are at present jointly financed by two or more levels of government. Expenditures on direct relief are made by municipalities, on old age pensions by the provincial governments, and in both cases subject to audit by the Comptroller-General of the Dominion and later by the Auditor-General.[32] Audits of relief expenditure are also conducted by provincial governments. It is difficult, however, to see how this duplication of auditing could be eliminated under the present

[26] *E.g.*, Alberta's costs fell from $540,000 (1931) to $225,000 (1932); Saskatchewan from $485,000 (1926) to $175,000 (1928); New Brunswick's from $214,000 (1930) to $100,000 (1933).

[27] These three provinces together are spending about $2·5 million annually on their provincial police forces.

[28] Ev. p. 7931.

[29] See Ex. 188, Brief of Associated Boards of Trade of B.C., pp. 5 and 9, Ev. p. 5412; for the B.C. Govt's opposition to national policing see Ev. pp. 5924-25.

[30] For Alberta's objection see *Canada Sessional Papers*, 1938, No. 256.

[31] See pp. 24*ff*.

[32] See Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*.

system whereby costs are shared between two governments. Dual audits are almost certain to continue so long as sums are advanced by one jurisdiction to be spent by another, subject to conditions. It would be unreasonable and, indeed, politically impossible for a government supplying a large part of the costs of a service to waive the right to audit expenditures made through the agency of another government. The procedure results, however, in a considerable measure of friction which is detrimental to harmonious relations between the Dominion and the provinces. Our recommendations for a clear-cut division of responsibility for relief[33] would, in general, mean that each authority would finance its own services with its own funds, in which case the need for such dual audits would disappear.

In the administration of old age pensions similar duplication of auditing exists, though to a lesser degree. But again it is difficult to see how this can be avoided so long as funds are contributed by both governments. But this occasions considerable friction. Numerous differences of opinion also have arisen over the interpretation of the regulations.[34] Most of the early differences have now been ironed out, but new ones arise from time to time. It seems to us desirable that some simple provision should be made to provide for authoritative decisions as to contested points. This involves the choice of some tribunal satisfactory to the interested parties and capable of giving expeditious and authoritative rulings as to the meaning of the regulations.

RESEARCH

So many governmental and private agencies are engaged in research that it would be strange if there were not a certain amount of waste or duplicate effort. Research in agriculture has been considered under that heading.[35] The field in which duplication is most likely to occur is private competitive research in which the utmost secrecy is maintained. Our evidence on the whole matter indicates that in respect to research under governmental auspices the present situation is "reasonably satisfactory".[37] Persistent care is needed in this field to limit waste effort to a practical minimum. The benefits of shrewdly directed research are so great in proportion to the sums expended, and the need for industrial and scientific research in Canada is so widespread that undue "efficiency" in organization might prove to be false economy. The situation is complicated by the fact that many discoveries in pure science prove afterwards to be of enormous value in the field of applied science. If state aid were completely withheld from projects which, though promising to extend the field of man's knowledge, appeared to be of no immediate practical or financial benefit, the progress of research in both pure and applied science might be seriously checked. But such considerations do not justify duplication of identical experiments unless required for checking purposes, useless investigations, or other sheer waste, and we recommend that the present machinery of associate committees and other co-ordinating devices be extended wherever a greater pooling of knowledge and effort can be accomplished.

TOURIST AND TRADE PROMOTION

The only question concerning Dominion-provincial duplication in the field of tourist promotion arises out of the creation in 1934 of the Canadian Travel Bureau. This was designed to "sell Canada" to the tourists of other countries and to act as a co-ordinating office for the numerous provincial, municipal and private tourist agencies in Canada. Both public and private inquiries were made by the Commission relating to the work performed by the bureau and the administrative relationship between it and the other bodies throughout Canada.[38] Some conflict of opinion was apparent as to whether tourists could be attracted to Canada by general advertising or whether it was more effective to advertise the specific local attractions of the diverse regions. If the latter, then a question arose as to the value of extensive Dominion advertising. The Commission was unable, without extending its inquiry unduly, to measure the relative effect of general versus local advertising upon potential tourists from abroad, and thus to evaluate the work of the Canadian Travel Bureau in a precise way. The annual sum devoted to tourist promotion by the Dominion is small in proportion to the vast sums spent in Canada each year by tourists, and without more information we should not like to disparage what may be a very valuable service. In view of some critical comments made by the provinces, however, we think the Dominion Government should satisfy itself by periodic reappraisal that this new service

[33] See p. 24.

[34] See J. A. Corry, *op. cit.*

[35] See p. 175.

[37] Ex. 402, Memo. on services of the National Research Council, p. 48.

[38] For public inquiry see Ev. pp. 9910-25, Ex. 220, Memo. Dept. of Trade and Industry, B.C., Ev. pp. 5816-19.

does not duplicate that of the provincial bureaux. If duplication appears the Dominion service should be reduced accordingly. The situation is complicated by the wide diversity of provincial expenditures. Several provinces have adopted a most aggressive tourist policy, and these provinces tend to feel that the Dominion Government may be overlapping their services. Other provinces are spending very little and rely (even gratefully) upon the promotion sponsored and financed by the Dominion Government. The basic federal dilemma arising out of the unequal financial ability of the provinces again crops up, and it is impossible to satisfy the requirements of all the provinces.

In the field of external trade promotion there is always the possibility that provincial trade representatives may duplicate the work of the Dominion Department of Trade and Commerce, but we are satisfied that up to the present there has been no serious overlapping. There appears to be a field for provincial trade agents to assist in the sale of commodities of special concern to their own region,[40] and, provided the facilities of the Dominion Commercial Intelligence Service are first explored and used as fully as possible before such special campaigns are launched or special provincial representatives appointed, we do not believe the practice should be reprehended. The provincial representatives are able, it is contended, to act as selling agents in a way not permissible for Dominion Trade Commissioners, and in some cases local industries co-operate with provincial governments to finance the provincial service. There is no reason why Dominion and provincial trade agents should not co-operate fully for the mutual benefit of their governments, and indeed we were assured that a large measure of co-operation does now exist.[41]

STATISTICS

Practically all Dominion and provincial departments collect some statistics in connection with their administrative operations, and the task of the Dominion Bureau of Statistics in part is to act as a collecting, correlating and interpreting office.[42] A great deal of attention has been devoted in the past twenty years to arrangements between the Bureau on the one hand and the Dominion and provincial departments on the other so as to eliminate waste effort. Provincial statistics are for the most part collected by the provinces and compiled by the Dominion Bureau. The latter prints and standardizes the information returns and schedules used by the provinces in obtaining the information, and when the material is compiled—according to a plan usually agreed upon beforehand by all parties—it is made available to the provinces for their own use. In addition there is some provincial compilation of material, the Province of Quebec for example, having published a year book for many years. Since 1918 the departments of the Dominion Government have used the Dominion Bureau of Statistics as their statistical agency, although for special purposes, or when greater speed is required and is thought to be possible by direct collection, some of the departments still collect their own statistics from time to time. The danger of administrative waste in the collection of statistics is considerable, but our inquiries did not bring to light any serious cases of duplication.

The effective and economical compilation of statistics in many fields depends upon close and intricate co-operation between the Dominion Bureau of Statistics and the nine provincial governments. This is at present fostered by occasional *ad hoc* Dominion-provincial statistical conferences. It was represented to us that the co-ordination would be strengthened by the creation of a Statistical Council[43] which would be required to meet at least once a year.

GEOLOGICAL SURVEY

The interests of the Dominion Government and the provinces overlap in the broad field of mapping and survey. Both geodetic and topographical surveys are closely related to the Dominion functions of regulating navigation, and of national defence. Since geological survey is a preliminary investigation looking toward the exploitation of natural resources, the title to which is vested in the provinces, it would appear to fall within the provincial field. There are, however, material advantages in a national service able to draw upon technical skills in a way not available to the smaller provinces at least. Geological survey is closely dependent upon topographical survey, and unless topographical survey precedes geological survey it is necessary for the geological survey parties to spend part of their time doing preliminary topographical work. The practice has been for the Dominion and the provinces to share geological

[40] Ev. pp. 8784-85; Brief of N.B., pp. 71-72.

[41] Ev. pp. 4716-24D.

[42] Ex. 139, Memo. *re* Constitution and Administrative Machinery of the Dominion Bureau of Statistics; Ex. 220, Memo. B.C. Dept. of Trade and Industry; Ev. pp. 3835-51, 5814, 5821.

[43] Ev. p. 3844.

survey work. We were told of the consultations that take place each spring before geological survey parties go out so as to avoid overlapping between Dominion and provincial efforts.[44] The attitude of the several provinces toward Dominion participation in this field differs markedly.

The Province of Ontario, with major interests in mining, has looked after practically all of its own geological survey work since 1935 and its brief[45] expressed the willingness of the Province to assume the entire responsibility for this work if the Dominion would exempt mining companies from income tax on actual mining operations. Other provinces, however, look to the Dominion to extend rather than curtail activities in this field.[46] In support of this position it was urged that every province could not afford to maintain the necessary staff of specialists. Manitoba, Saskatchewan and British Columbia, as well as Nova Scotia, favoured Dominion retention of this service and urged greater speed in the completion of topographical and geological surveys. The situation calls for a division of the field between the Dominion and the provinces in a flexible way to take care of the needs of the various provinces. Since the activity consists largely of field-work it is feasible for the Dominion Department of Mines to distribute its survey parties so as to supplement the activities of the provincial governments.

LABOUR LEGISLATION

Most of the provinces maintain a branch or department dealing with labour but no serious financial waste due to duplication with the Dominion department came to light either in public or private investigation. The Dominion Department maintains services dealing with such matters as annuities, investigations under the Combines Investigation Act, fair wages on Dominion projects or construction, unemployment relief and co-ordination of employment offices. The only activities in which overlapping with provincial functions might occur are the employment service, unemployment relief, and conciliation and investigation of industrial disputes. These activities are, however, dealt with at length elsewhere and recommendations made thereon.[47]

[44] Ev. p. 9627.

[45] Pt. II, p. 55. See Ex. 317, Memo. Ont. Dept. of Mines.

[46] *E.g.*, in Nova Scotia, see Ex. 146, Memo. N.S. Dept. of Mines, p. 2.

[47] See Sect. A., Ch. I (2); and p. 47.

JAILS; PENITENTIARIES; LAW ENFORCEMENT

The cost of administering justice and of maintaining penal institutions is divided among the several governments in Canada. Since the appointment of this Commission, recommendations have been made to the Dominion Government by the Royal Commission to Investigate the Penal System of Canada. These include proposals for the reorganization of the present administration over provincial jails and reformatories, and penitentiaries. Our recommendation for a general power of delegation of jurisdiction by a province to the Dominion or vice versa, if adopted, will conveniently provide means for any change of jurisdiction involved in the recommendations of the Penal Commission. In view of the exhaustive inquiry made by the Penal Commission on the whole subject of penal institutions (including overlapping), we think it would be out of place for us to say anything further on the matter of overlapping in this field, but certain complaints were made at our public hearings and may be appropriately mentioned.

It was represented in hearings in the Maritime Provinces that the present arrangements were in some respects inequitable and anomalous, and especially that the cost of enforcing such federal statutes as the Customs Act bore with undue weight upon the municipalities where the offence happened to take place.[48] In New Brunswick it was urged that excessive costs fell upon the municipalities from offences committed by Indians, who were held to be a Dominion responsibility.[49] The inability of the weaker municipalities to provide modern penal institutions and uniformity of treatment was stressed.[50] These, however, are matters to be settled between the provincial government (which is responsible for the enforcement of law and order) and its agent or creature, the municipality. If the financial adjustments recommended elsewhere are made, every province will be in a financial position to make whatever rearrangements with its own municipalities appear to be called for in the interests of equity and efficiency.

TRANSPORTATION

A separate section of this Report is devoted to the discussion of transportation problems, and one of the most important problems discussed there is

[48] *E.g.*, Ex. 154, Brief of Union of N.S. Municipalities, Ev. pp. 4230, 4243 *et seq.*; Brief of P.E.I., pp. 51-53, Ev. pp. 4528-45.

[49] Ex. 375, Brief of Union of N.B. Municipalities, Ev. pp. 9068-69.

[50] Complaint was also made by the Government of Ontario with respect to the cost of maintaining prisoners who became insane during incarceration. See Ev. p. 7908.

the actual and potential duplication of transportation facilities by the Dominion and the provinces.[51] Indeed, duplication of services between governments is greatest in the field of transportation, and probable developments in transportation may tend to increase greatly this duplication unless a comprehensive scheme of co-operation between the Dominion and the provinces is evolved.

COMPANY INCORPORATION AND REGULATION; INSURANCE; FISHERIES

There is also some duplication of effort and services in the above fields although the costs resulting from this duplication are not large. These subjects, however, are discussed at length elsewhere and recommendations made thereon.[52]

SUMMARY OF OVERLAPPING AND DUPLICATION

The foregoing indicates that the Commission's inquiries failed to disclose the measure of overlapping and duplication between governments which has been charged from time to time. This conclusion is supported by the testimony of witnesses whose close contact with administrative conditions should have placed them in a position to detect any substantial degree of such wastes.[53] Every provincial government, as well as the Dominion Government, was asked to permit officials to appear and give evidence about overlapping. During the Ontario hearings questions were addressed to the Government of Ontario seeking precise evidence regarding allegations of overlapping made in the Ontario brief. Further information was promised but was not received.[55] Similar requests to provide us with concrete evidence were made of business organizations,[56] which had deplored the amount of duplication in government, but again with negative results.

It should, however, be reiterated that the failure to discover gross overlapping does not warrant the assumption that no administrative waste exists. We are satisfied that considerable sums could be saved to the Canadian taxpayer without material loss in efficiency of services by a systematic weeding-out of ill-considered or obsolete activities.

The Dominion Government has within its Civil Service Commission an embryo agency for the systematic canvassing of the efficiency of the civil service. The organization branch of that commission undertakes surveys of the day-by-day work of each civil servant; and on their recommendations depend promotions, reclassifications, new appointments and termination of posts. They report on any proposed expansion of administrative machinery. We believe that this device is sound, but needs considerable strengthening and extension to be effective. If the idea can be copied by the provincial governments it should result in greater efficiency in provincial services.

But many wastes are of a nature which such administrative surveys are unable to disclose since they arise from unwise, static and outmoded policies which fail to change with the needs of a dynamic economy. The Civil Service Commission is not in a position to criticize policy in public expenditure. If sums are voted for a stated purpose by Parliament, all that the Civil Service Commission can do, no matter what its private views may be regarding the value of the service, is to see that the sums are spent through an efficient organization. Critical appraisal of policy can be made only by representatives of the people. We suggest that the task of periodic reconstruction of all branches and departments of government be entrusted to a special committee of Parliament set up for the purpose. Instead of being permitted to coast along on its momentum in grooves worn smooth by custom, every branch and project of government should at intervals be called upon to justify its cost in terms of values to society. Only in some such way can the operations of government be kept free from deadwood and duplication. This suggestion, of course, applies to the Dominion alone, but some analogous method might be devised by the provincial governments.

From the point of view of the civil servant such periodic reappraisals, which in order to be of value would need to be drastic and conducted without fear or favour, would constitute a threat of insecurity of office that would raise some new problems. In choosing the civil service as a career many persons accept a somewhat smaller income and less attractive opportunities for advancement as an offset to the insecure speculative nature of employment in private enterprise. It would be necessary to combine security of tenure within the civil service as a whole with a new insecurity of special function. Any such increase of flexibility within the service would, we think, be a desirable attainment in itself.

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[51] See pp. 200*ff*.

[52] See for Company Incorporation and Regulation, p. 56; Insurance, p. 59; Fisheries, p. 58.

[53] Brief of Sask., p. 321; Brief of Man., Pt. VIII, pp. 14-15; Brief of N.S., Ev. p. 4199.

[55] At Ev. p. 8114 the following question was directed to the Government of Ontario: "In Part I of the Ontario submission, p. 5, it is stated that there is 'gross prodigality and woeful waste in public administration' and that 'there is overlapping between the central and provincial bodies.' Would the Government of Ontario indicate as completely as possible where prodigality, waste and overlapping exist?" See also Ev. pp. 7403-04.

[56] *E.g.* Winnipeg Board of Trade, Ev. p. 864; Canadian Chamber of Commerce, Ev. pp. 9535-36.

SECTION D

DOMINION-PROVINCIAL ASPECTS OF TRANSPORTATION

CHAPTER

I The Freight Rate Structure

II The Problem of Railway and Highway Competition

III British and United States Experience

IV The Basis for Dominion-Provincial Co-operation

SECTION D

DOMINION-PROVINCIAL ASPECTS OF TRANSPORTATION

There could be no thorough study of the matters remitted to the Commission for consideration without an understanding of how closely many of these questions are related to certain phases of the complicated and wide-ranging railway and transport problem. The submissions, dealing with aspects of this problem, were important; and many of the questions thus raised have been considered in the light of their connection with other issues which the Commission has found it necessary to examine and to deal with. These had to do with such matters as the purposes of national integration and encouragement of trade which inspired the transportation policies of the Dominion Government: the building of the Intercolonial, the enlargement of internal waterways, the provision by aid, direct and indirect, of three transcontinental railways within a period of forty years; inquiry into charges that the policies had not fulfilled the purposes, with results disappointing and injurious to important sections of the country; consideration of a complaint by Prince Edward Island that engagements as to continuous communication had not been met, and of a claim by British Columbia that the Canadian National Railway System should be extended to take in the Pacific Great Eastern Railway. All these questions are discussed elsewhere with comments justified, in the judgment of the Commission, by the ascertained facts.[1]

In addition to these matters, representations were made to the Commission dealing with railway questions of great moment, rightly calling for consideration by the competent authority, but which in the judgment of the Commission did not impinge directly upon Dominion-provincial relations; and did not, therefore, call for inquiry and discussion. It is on these grounds that the Commission has omitted the question of the relations between the two great railway systems. There were several references to this matter in submissions made to us. These ranged from observations that the situation was serious, calling for resolute and constructive action,[2] to support for some not clearly defined scheme or plan of "unification" or "amalgamation" with "preservation of existing private rights."[3] In no case were there detailed specific recommendations as to courses of action deemed adequate to attain the desired ends.

This is not a problem of Dominion-provincial relations, coming within our instructions. These two railway systems are exclusively within the jurisdiction of the Dominion authorities; and the question of what is advisable to be done has been engaging their attention for years. There was an exhaustive study of this situation in 1932 at the instance of the Dominion Government by the Duff Commission, which made an extensive report with specific recommendations; and this inquiry has been supplemented by an examination carried on by a special Committee of the Senate during the sessions of 1938 and 1939.

It was stated in one of the submissions that "the financial problem of Dominion-provincial relations" is greatly aggravated by the existence of an unsolved "Railway problem".[4] The implication—that financial adjustments between Dominion and provinces, when found necessary, could be more readily made if the Dominion Government had not to meet heavy demands from other quarters—is doubtless accurate; but it does not affect the principle, to which the Commission has adhered, that the review of policies, financial or otherwise, solely within the sphere of Dominion or provincial power, is not a function which it is called upon to exercise, unless these policies have been the occasion of Dominion-provincial friction.

Transportation matters, where they come definitely within the ambit of Dominion-provincial relations, are of major importance; and we shall proceed to discuss at some length questions of this character, which have not already been dealt with. These questions, which await consideration, fall into two main classifications. There is that subject

[1] Section F, Chap. III, B.C. claims as to Pacific Great Eastern Railway; V, Claims concerning Trade Through Maritime Ports; VI, Compensation for Excess Freight Rates; VII, Prince Edward Island Claims.

[2] Ex. 394, Canadian Chamber of Commerce, p. 4.

[3] Ex. 270, Brief of Canadian Manufacturers' Ass'n; Ev. 6756-6821.

[4] Ex. 108, Canadian Investment Dealers, p. 11.

of perennial interest and constant discussion—the existing sectional incidence of the freight rate structure which, since the completion of the first transcontinental, has been built up to cover the whole Dominion, and has been subjected to a process of continuous adjustment, to meet changing conditions. That this is a matter of lively interest, the submissions by most of the provinces attest; and to this careful attention has been given by the Commission.

It became evident to the Commission at an early stage of its labours that the whole field of transportation, with its division of responsibilities and opportunities in the matter of supplying essential facilities between all the units of Government, Dominion, provincial and municipal, would call for extensive examination. It is in this field that the greatest danger lies of overlapping of services and expenditures necessitated by them, which was set out in our terms of reference as a subject requiring the most searching scrutiny. Though this development is still far short of its potential maximum, it has already brought about an extensive and costly duplication of transportation services; destroyed heavy investments of capital, both public and private; and threatens a repetition in another field of the inordinate expenditures which marked the climax of railway building in the second decade of this century. The Commission thinks it somewhat remarkable that in the many references to highways to be found in the submissions made to it, there was practically no recognition of the financial consequences if there continues to be a complete lack of co-operation and co-ordination between the various governments in the matter of railway and highway competition.

Most of the suggestions set out in the representations about highways made to the Commission were that the Dominion should make larger contributions toward the construction of main highways and highways to mines and national parks, and should give greater assistance to provinces to enable them to supply adequate roads.

This defect in the information supplied the Commission, by the ordinary means of voluntary submissions and free discussion, has, however, been met by the results of an intensive study of the whole transportation field undertaken by a staff of experts at the instance of the Commission,* which revealed actual and potential dangers of the present state of unlimited competition between agencies and facilities for transportation operated under different jurisdictions. The Commission has, therefore, thought it desirable to throw such illumination, as its researches and special studies have made possible, upon the situation.

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* This study was carried on under the general direction of Mr. R. A. C. Henry, formerly Deputy Minister of Railways and Canals. The material proved too voluminous for publication but will be filed with the records of the Commission, and selections from the material are being published as an Appendix, *Railway Freight Rates in Canada* (mimeographed).

Chapter I

THE FREIGHT RATE STRUCTURE

The Commission has been in receipt of numerous representations in which regional or provincial complaints about freight rates, on grounds of discrimination or undue preference, have been voiced.

In keeping with our reasons, already stated, for regarding railway questions which impinge upon Dominion-provincial relations as coming within our terms of reference, we deem it expedient to give consideration to some general aspects of the question of public control of railway rate-making—a matter which has been a fruitful cause of trouble between regions and between provinces and the Dominion for at least the past sixty years.[1]

The Order in Council of June 5, 1925.—It is not necessary, in considering the historical aspects of the question, to go further back than 1925. It was in that year, June 5, that the Dominion Government passed an Order in Council requiring the Board of Railway Commissioners to make a full and complete investigation into the freight rate structure of the railways. When the Board of Railway Commissioners entered upon this task it had (with one exception) complete control over rates in Canada, subject to an appeal on points of law to the Supreme Court and an appeal on merits to the Governor in Council. The exception was the statutory provision that the eastbound grain and flour rates embodied in the Crow's Nest Pass Agreement of 1897 should be continued and applied to the entire prairie area.

This provision was the continuing remnant of the extensive agreement of 1897 between the Dominion Government and the Canadian Pacific Railway. Between those who thought the Crow's Nest Pass Agreement Act (which antedated the Bill creating the Board of Railway Commissioners by six years) should be repealed, leaving freight rates in the West to be fixed by the railways subject to appeals to the Board, and those who held that these rates should be continued as a protection to an area which was not favoured with water competition, a conflict began in 1922 which was fought out in special Parliamentary committees, in cases before the Board of Railway Commissioners, in references to the Supreme Court, in appeals to the Governor in Council and in Parliament itself. In the result, the principle that it was proper for Parliament to put statutory limits to the powers of the Railway Commission was clearly established by the retention in the Order in Council of June 5, 1925, of the grain and flour provisions of the Crow's Nest Pass Agreement. Again in 1927 there was a further exercise by Parliament of its power to fix maximum rates in the passage of the Maritime Freight Rates Act.

The present situation as to rate-making is therefore this: The railways are free to make such rates as the Board of Transport Commissioners (which is the successor of the Board of Railway Commissioners) will approve subject to the power of Parliament to fix limits within which both the railways and the Board must exercise their powers. But the Board, in its supervision of rates, is under obligation to observe the principles of rate-making laid down in the declaration of policy contained in Order in Council P.C. 886 of 1925, part of which reads as follows:—

> "The Committee are of the opinion that the policy of equalization of freight rates should be recognized to the fullest possible extent as being the only means of dealing equitably with all parts of Canada and as being the method best calculated to facilitate the interchange of commodities between the various portions of the Dominion, as well as the encouragement of industry and agriculture and the development of export trade."

Again:—

> "The Committee are further of the opinion that as the production and export of grain and flour forms one of the chief assets of the Dominion, and in order to encourage the further development of the great grain growing provinces of the West, on which development the future of Canada in large measure depends, it is desirable that the maximum cost of the transportation of these products should be determined and known, and therefore are of opinion that the maximum established for rates on grain and flour, as at present in force under the Crow's Nest Pass Agreement, should not be exceeded."

[1] For a general discussion of the right of a province or a region in Canada to make a claim in respect of federal policies see Section F, Chap, I, "Compensation for the Adverse Effects of Federal Policies".

The next paragraph of the Order instructs the Board that its power, except for the Crowsnest Pass rates, is "unfettered by any limitation". The order proceeds:—

> "The Committee therefore advise that the Board be directed to make a thorough investigation of the rate structures of railways and railway companies subject to the jurisdiction of Parliament, with a view to the establishment of a fair and reasonable rate structure, which will, under substantially similar circumstances and conditions, be equal in its application to all persons and localities, so as to permit of the freest possible interchange of commodities between the various provinces and territories of the Dominion and the expansion of its trade, both foreign and domestic, having due regard to the needs of its agricultural and other basic industries. . . ."

Summary of Representations.—The representations bearing upon these matters made to us may be thus summarized:—

The Transportation Commission of the Maritime Board of Trade,[2] speaking as representative of the interests of the three Maritime Provinces and with the approval of the governments of these provinces, raised an important and difficult question with respect to the effect of the reduction of freight rates made by the railways in Central Canada to meet truck competition. It was claimed that the 20 per cent differential in freight rates granted to the Maritime Provinces under the Maritime Freight Rates Act had been nullified by these reductions. The suggestion was therefore made that the differential should be restored by a new adjustment; and that adjustments should continue to be made whenever necessary to maintain the relationship. This is discussed later in this chapter.

The Nova Scotia Government in its brief[3] also referred to this partial breakdown of the benefits conferred by the Maritime Freight Rates Act and stated that if the present conditions are to continue "then certainly some compensation must be made to the people of the Maritime Provinces."

The representations of the Ontario Government were not with respect to freight rates in the Province of Ontario. The freight rate structure of Western Canada was criticized on the ground that it was too low. Premier Hepburn said that grain rates in the West were 9 cents per bushel lower than comparable rates in the United States. "I shall not attempt", he said, "to compute the 'excess' burden shouldered by the people of the eastern provinces as a consequence of what I am told are the world's lowest per mile rates on wheat, but multiplying the number of bushels of wheat exported (in even a bad year) by nine cents gives promise of being a substantial sum." A request was made for a statement by this Commission of "the distribution of federal expenditures for railways on a per capita basis by provinces."[4] The share of each province in payments to meet the Canadian National deficit was computed in the brief on the basis of traffic originating in the province, which made Ontario's share in 1936-37 30 per cent as against 31 per cent for the Prairies.

The Saskatchewan Government, in its submission to the Commission,[5] made a detailed survey of freight rates to show not only that the Prairie rate structure was higher than the Eastern rate structure but that terminal and other classes of rates bore heavily upon the Province. The Saskatchewan Government referred with approval to the suggestion in the Report of the Duncan Commission that the jurisdiction of the Railway Board be enlarged permitting, in the words of submission, the Board in regulating freight rates to "deal with broader aspects than the mere question of the reasonableness of the rate charged for a particular service . . . and questions of unjust discrimination and undue preference"; and suggested that these recommendations be studied as a means of securing the adjustment of rates on a more equitable basis. "The west", it declared, "can no longer pay . . . higher transportation charges."

Several briefs dealing with freight rates were submitted to the Commission in Alberta. Their common burden was that Alberta is at the apex of the transcontinental freight rate structure and that in every classification and division of rates Alberta pays the topmost charge. "Alberta must sell the bulk of its agricultural products in world markets at world prices less transportation costs, and must buy the bulk of its purchases within Canada at prices . . . to which must be added the cost of long-haul transportation under a varying schedule that reaches its peak on shipments to Alberta."[7] A grievance of Alberta which was specially stressed is that through rates to Vancouver—put in operation

[2] Ex. 366, Brief of Transportation Commission, Maritime Board of Trade.

[3] Ex. 140, Brief of N.S., pp. 104-5; see also Ex. 357, Brief of N.B., pp. 55-59.

[4] Ex. 296, 297, Brief of Ont., Pt. I, p. 28; Pt. II, p. 20.

[5] Ex. 34, Brief of Sask., pp. 203-223. In the presentation of the Transportation Commission of the Maritime Board of Trade at Fredericton the suggestion by the Saskatchewan Government was referred to and strongly seconded, both in the submitted brief and in the supporting argument, Ex. 366; Ev. pp. 8886, 8887.

[7] Ex. 236, Brief of the Edmonton Chamber of Commerce, p. 29. See also Ex. 242, Brief of Alta. Assoc. of Municipal Districts; Ex. 255, Brief of United Farmers of Alta.; Ex. 257, Brief of Alta. C.C.F. Clubs.

by the railways to meet water competition via the Panama canal—enable goods in certain cases to be shipped by rail to Vancouver and back into Alberta more cheaply than they can be shipped direct. Much attention was paid in these briefs to the "Spokane Decision" of the Interstate Commerce Commission under which intermediate points (Spokane, for example, in relation to Seattle) were not to be charged rates higher than their fair proportion of through rates without the permission of the Commission. The submissions in Alberta called for relief from so-called high rates and from rates which appeared to the witnesses to be discriminatory and indefensible.

The British Columbia submission[8] presented other aspects of the same rate problem. The complaint most strongly voiced in the brief presented by the Government was that freight rates on goods brought in from Eastern Canada—under compulsion because of the tariff—were higher than the rates on bulk goods shipped from British Columbia to markets in Eastern Canada, though there was no corresponding difference in haulage costs. This it was asserted was a discrimination against British Columbia consumers. "On the surface," it is stated in the brief, "this situation is apparently inequitable, since for almost similar services performed very dissimilar freight tolls are exacted. The principle of charging what the traffic will bear has an inherent spirit of discrimination, at least when applied to whole areas. Primary producing regions selling a comparatively low value product are compelled to pay the relatively high freight tolls; while, on the other hand, secondary producing areas receiving revenue from their comparatively high value products pay the relatively low freight tolls." Comparative regional rates are quoted to show that they are higher than rates on similar articles for similar distances in the Ontario-Quebec district; and it is denied that these are related to costs of operation. A special protest was made against the high rate on grain shipped to Vancouver for local consumption in comparison with the export rate.

Ontario Representations.—The Ontario representation,[9] it will be seen, differed in content and direction from the representations made by other provinces in that it did not make specific observations suggesting reduction in the rates in the area for which it spoke. It was largely directed toward suggesting that the Western Provinces, which complained of high rates, were in fact the recipients of unusually favourable treatment in the existing freight rate structure to the disadvantage of other areas. We propose to deal with these observations before proceeding to a discussion of the other submissions which raise questions of general rate policy affecting the whole Dominion.

Among the Ontario suggestions was one that the distribution of federal expenditures for railways on a per capita basis by provinces should be ascertained. This information is in part supplied by Mr. R. A. C. Henry in a study prepared by him for the research staff of the Commission. The following table gives a summary of the cost of railway facilities, in respect of which the Dominion has assumed financial responsibility either as public works or by reason of ownership through stock control, allocated by regions as at the end of 1936:

	Cost	Per Capita
Maritimes	$162,414,000	$158
Quebec	291,891,000	94
Ontario	653,425,000	177
Prairies	408,426,000	169
British Columbia	166,453,000	222

The tabulation indicates how valueless calculations of this kind are in any attempt to allot responsibility to regions for their supposed contribution to over-investment in railway facilities. To sort out instances of sectional extravagance from the mass picture of nation-wide over-expansion would be a difficult if not impossible task; and instead of attempting it we prefer to associate ourselves with an observation on this aspect of the transportation problem made by an earlier Royal Commission, under the chairmanship of Sir Thomas White:—

> "As some reference has been made to the vast sums expended by the Dominion or by Government-controlled railway systems upon the construction of transcontinental lines and local branch lines in the Western Provinces it seems desirable to point out that such expenditure was regarded as essential by the various governments of the Dominion in pursuance of the policy of promoting settlement as rapidly as possible in those extensive areas in the interest not alone of the Western Provinces but of all the Provinces of Canada. The express purpose of Confederation was to bind together the scattered Provinces and territories of British North America as a national and economic unit capable of unlimited growth and development to the benefit and advantage of all its inhabitants. For the realization of this great undertaking in nation-building the construction of transcontinental railways linking together east and west was a paramount necessity. It is not too much to say that the policies of all Dominion Governments during the fifty years following Confederation were

[8] Ex. 172. Brief of B.C., pp. 299-301.
[9] Ex. 296, p. 28; Ex. 297, p. 20.

directed to this end. The various forms of public assistance given in promoting the construction of the Canadian Pacific, the Canadian Northern and the Grand Trunk Pacific Railway systems and the construction by the Government of the Intercolonial and the eastern section of the National Transcontinental System were all motivated by this policy. That we have built in excess of our real transportation requirements is undoubtedly true and that Dominion Governments or Dominion-owned railway systems in respect of the construction or acquisition and betterment of local lines in various provinces (including the Maritimes) have had regard to local conditions or local benefit is also true but the latter action was not exclusively taken in the case of the Western Provinces and the former with the object of benefiting all parts of the Dominion. It must also be remembered that hand in hand with our railway development, has gone the development, at the general expense of the Dominion, of our ports and harbours on the Atlantic and Pacific Coasts. This development although in its physical aspect confined locally to British Columbia and the Maritime Provinces has enured like that of our railway systems to the benefit and advantage of all Provinces of Canada and not exclusively to those in which it has actually taken place."[10]

There is also in the Ontario submission the somewhat definite statement that an excess burden has to be shouldered by the Eastern Provinces because of the Western rates on grain and the suggestion that this burden can be computed by " multiplying the number of bushels of wheat exported by nine cents per bushel,"[11] which would run into a large sum of money even in a year of limited export. The figure, nine cents, represents what the railways claimed was the difference between United States and Canadian rates on wheat. This was an *ex parte* statement recently made by them as a justification of rates on petroleum products which were admittedly higher in Western Canada than the rates in the adjoining states.* As this supposition, that the rates on wheat in Western Canada are unremunerative and therefore a large contributing factor in the difficulties of the railways, constantly finds expression in the discussion of the railway question, the Commission, without undertaking to express an opinion, thinks it desirable to draw attention to the statements available in the records bearing upon this point, which tend to show that this is an open question upon which a variety of views may be held.

In the 1921-22 freight rates investigation and again in the General Freight Rates Inquiry, 1925-27, counsel for the Prairie Provinces sought to prove by analysis of the statistical material submitted by the railways and by examination of their expert witnesses, that in the preceding years—which were years of large grain movements—the railway earnings on their Western lines, largely arising from the carrying of wheat, made much the greatest contribution to the gross operating income of the railways. The heart of the argument was that, while the rates were undeniably low, the movement of the grain in train loads over relatively long hauls with resulting cheapness of operation, netted substantial profits. It was contended that the American rates, cited by the railways, were for shorter hauls and a smaller volume of freight than those that prevailed in the Canadian West. A summary of this evidence showing comparative earnings and operating expenses for a period of years was submitted to this Commission by the Saskatchewan Government in its brief.[12] Counsel for Manitoba in the General Freight Rates Inquiry of 1925-27 in presenting his case to the Board, urged it to make a finding on the profitability or otherwise of these statutory rates on wheat. His argument was that, since the earnings of the Western lines were high, it followed that the grain rates were profitable or alternatively that the rates on other commodities were unduly high since they more than made up the loss.[13]

No formal finding was made; but there were references to the question by two of the Commissioners. Deputy Chief Commissioner Vien gave it as his opinion that " no accurate and definite conclusion can be drawn from the information on the record as to the actual cost of moving grain in trainload lots from Armstrong to Quebec "—an opinion equally applicable to the moving of grain in the West. He quoted the statement of Mr. E. E. Lloyd, a Canadian Pacific Railway official, who gave evidence about earnings and rates, that " I do not know what the cost of handling grain is." Commissioner Oliver discussed the question at length. After a summary of the inferences to be drawn from the material produced he said: " It was also shown that the net returns were higher in the years of largest crop. In view of these facts it does not seem possible to accept as proven the

[10] *Report of the Royal Commission on Financial Arrangements between the Dominion and the Maritime Provinces*, 1935, p. 18.

[11] Ex. 296, Brief of Ont., Part I, p. 28.

* *Ibid.*

[12] Ex. 34, Brief of Sask., pp. 211, 212.

[13] "I am going to ask the Board, if they will, to make a finding with respect to the profitable nature of the grain traffic. So long as it is left in the realm of speculation you will have the large amount of propaganda which has gone over this country, contributed to by the railways. I think, on the material before the Board, that that question ought to be settled. . . . It seems to me essential to decide whether or not these grain rates do or do not pay because if they do I say we are entitled to consideration of some other rates." (From argument of H. J. Symington, K.C., counsel for Manitoba, April 6, 1927, proceedings of Board of Railway Commissioners in General Freight Rates Inquiry.)

first contention of the railways that the present grain rates are in themselves unprofitable."[14] Commissioner Oliver also discussed at some length the argument that since the grain rates in the Western states were higher than those in Western Canada the latter must be unduly low; and reached the conclusion that this inference was unwarranted. His opinion was that the United States Interstate Commerce Commission in an effort to put the American railways in a position to earn 5½ per cent on their capital investment, recognized as reasonable by Congress, had "laid an undue share of the burden of general transportation costs on the basic product of grain."[15]

The record, thus summarized, leaves the question as to the profitability or otherwise of the grain rates undecided. This is not desirable if the charge of unprofitability is to be constantly made in discussions dealing either with the general railway problem or with the consideration of charges of discrimination as between regions. An examination of these conditions and a definite finding would be a contribution of value to the processes of adjustment; but upon the evidence available to us we cannot make such a finding.

Submissions on Behalf of the Maritime Provinces.—The other representations made in provincial submissions are illustrations of the difficulties and apparent inequalities that result from the competition of other forms of transportation with the railways. The Maritime complaint which we have summarized above arises from the unsettlement of the relationship, which had been established between Maritime and Central Canadian rates by the Maritime Freight Rates Act, through the necessity with which the railways were faced of either meeting the competition of trucks in the central area or abandoning to them a considerable share of their business in that area. This is an illustration of the effect which the development of trucking competition in particular areas can have upon the whole freight rate structure of Canada. The effect, if the railways decide to meet the competition, is to increase the rate differential between various regions thus checking or even reversing the present trend toward equalization. For the Maritime Provinces such results are especially unfortunate since they affect adversely the differentials established by the Maritime Freight Rates Act. The remedy suggested in submissions made to us on behalf of the Maritime Provinces[16] is maintenance of the differentials fixed in the case of railways no matter what form the competition takes or what the consequences to the railway may be; but there is recognition of the difficulty of doing this in the absence of some measure of federal control over alternative systems of transportation.

We find ourselves unable to accept the argument that, in the circumstances now existing, a railway rate differential in favour of a region must be maintained against all forms of competition and regardless of the costs of operation. This difficulty about the maintenance of these Maritime rates is a consequence of truck competition and it can only be dealt with as part of the wider problems of transportation which are discussed in the following chapter.

Saskatchewan Submission.—The Saskatchewan submission[17] is the restatement of a long-standing complaint of the Prairies—that the rates on freight in identical classifications differ between the Western and Central regions to the advantage of the latter. Whether or not this is a well-based complaint depends chiefly upon the answer to a question to which we have already given some attention. If grain which constitutes a high percentage of the freight moved by railways in the Western Provinces is carried at unremunerative rates the case, as set out in the Saskatchewan Brief, is obviously affected by that fact. A comment upon variations in regional rates due to differences in the character of the freight handled may be quoted:—

> "Whilst it has not been possible to devise any suitable criteria with which to test the relative regional incidence of railway rates, because of lack of appropriate data, it may be said that the rates on primary products have been consistently low and consequently such as to promote rather than discourage regional development. It may also be said that there has been throughout Canada a tendency towards rate equalization in a downward direction under which many of the factors which were formerly considered as justifying differences in rates are being disregarded. The possibility of a complete equalization in a downward direction of the higher class rates necessitating a higher level for rates applicable to primary products should not be overlooked. In this latter connection, it may be said with reasonable accuracy that the average revenue received per ton mile for the railway haulage of wheat is about one-half cent and, whilst the average haul is somewhat over seven hundred miles, the average revenue per ton mile is only about half that received for all railway traffic. The theory

[14] *Judgments and Orders of Board of Railway Commissioners*, Vol. XVII, p. 131 at pp. 198, 248.

[15] *Ibid.*, p. 250.

[16] Ex. 366, Brief of the Transportation Commission, Maritime Board of Trade; Ex. 357, Brief of N.B., pp. 55-59; Ex. 140, Brief of N.S., pp. 100-105.

[17] Ex. 34, Brief of Sask., pp. 203-223.

upon which railway freight rates is based demands that consideration be given to the relation between low and high grade traffic, otherwise there would be no way of compensating for the failure of the low grade traffic to meet its full share of the cost of the whole service rendered. In other words a region whose traffic consisted of a large percentage of low-grade traffic moving at very low rates, and small percentage of high-grade traffic ought to expect to be charged a relatively higher rate on the small percentage of high-grade traffic than a region where the high- and low-grade traffic maintained an even balance."[18]

This opinion gives support to the contention made to us, to which attention will later be drawn, that for rates on low-grade freight, where these are not remunerative, the railways must either make up the losses by steeper rates on freight in the higher classifications or look to the public treasury for compensation.

Alberta Submissions.—The various representations from organizations in Alberta,[19] in addition to embodying a complaint as to higher local and distributing rates in Alberta than in the East, illustrate in particular the situation which was created for the railways by the water competition made possible by the construction of the Panama canal. To meet this competition the railways lowered their through transcontinental rates to hold the volume of traffic which they regarded as essential. It then became necessary for the railways to decide whether they should make the rates to intermediate points a proportion of the through rate as determined by water competition, or should fix these intermediate rates in the traditional manner having regard to the value of the service rendered and what the traffic would bear. The decision was in favour of the latter course and there resulted divergencies in charges from the East upon identical classes of freight to points in Alberta and to the terminals at the Pacific ports. These were drawn to our attention in the Brief and in the Evidence submitted by the Edmonton Chamber of Commerce, the most striking being the variation in the charges on a car of canned tomatoes from Aylmer, Ontario, to Edmonton, 2,200 miles, $1,038; to Vancouver, 2,900 miles, $450.[20] The rates to Alberta in some cases, it was represented, were determined on the basis of the through-rate to Vancouver and the local rate from that port to Alberta points. It was stated that Alberta is at the apex of Canada's freight structure and suffers in special degree from these variations in rates. These submissions, the Edmonton Chamber of Commerce took care to explain, were not in the nature of an appeal to the Commission for remedial recommendations but to indicate that there was from this cause an increase in living costs which bore heavily upon a pioneer economy.[21] The suggestion was made that the situation might be met by the adoption by Canada of what is known in the United States as the "Spokane rate"—a ruling of the Interstate Commerce Commission that, without its special permission, no railway freight rate to intermediate points shall be higher than the rate to the terminal point. "If the principle of the Spokane Rate Case . . . were in force in Canada its effect on Alberta's position . . . within the Dominion would be tremendous."[22] No evidence, however, was laid before us that any application has ever been made to the Board of Transport Commissioners that something analogous to the Spokane rate should be incorporated in the Canadian freight rate structure and this body alone would have the full authority to hear the argument and render a binding judgment; and this Commission is unable to go beyond taking note of this suggestion.

British Columbia Submission.—The British Columbia submission[23] raises practically all the questions which arise in Canada from freight rate differentials and the distribution of rates on the basis of the present classification. It shows as well that the customs tariff is a factor in rate-making by protecting freight rates as well as manufacturing costs. "It is claimed," says the Brief (p. 313), "that the consumers of British Columbia are penalized not only because of geographical conditions but because of the freight rate structure of the Canadian railway system." A "freight rate structure . . . based on the principle of what the traffic will bear, works a hardship upon British Columbia because of our economy here."[24] These complaints, however, do not require special discussion here; they are considered along with general complaints in the following paragraphs.

The Nature and Control of the Present Freight Rates Structure.—The pressures and necessities which have fashioned the traditional freight rate structure, with its variations in charges determined

[18] From a Memorandum prepared for the information of the research staff of the Commission by Mr. R. A. C. Henry, para. 649.

[19] Ex. 236, Brief of Edmonton Chamber of Commerce; Ex. 242, Brief of Municipal Districts of Alberta; Ex. 255, Brief of United Farmers of Alberta; Ex. 257, Brief of Alta. C.C.F. Clubs.

[20] Ev. p. 6055.

[21] Ev. p. 6064.

[22] Ex. 236, Brief of Edmonton Chamber of Commerce, p. 30.

[23] Ex. 172, Brief of B.C., pp. 289-314.

[24] Ev. p. 5176.

by a complexity of causes of which actual cost of movement is often only of minor significance, have been frequently discussed.[25] But this structure, in itself seemingly anarchic to those who see no reason why rates should not be fixed on simple considerations of mileage and expense of handling, could only be maintained with rigid uniformity in territory where a virtual monopoly of transportation by railways is possible. Such a monopoly does not exist in Canada. Wherever there are alternative means of transportation by water or truck or airplane, the railways are faced with a choice between meeting the competition or abandoning the traffic. Moreover, the railways must always be mindful of their balance sheets and must as a minimum seek to meet operating expenses. In consequence of adjusting the rate structure to meet both the revenue needs of the railways and the competition offered by other systems of transportation apparent inequalities and injustices have arisen.

The result of these conflicting pressures is to be seen in the bewildering conglomeration of rates which comprise the freight rate structure of Canada. In fact, it is not haphazard. It has been built up in conformity with the Railway Act's provisions under the constant supervision of the Board of Railway Commissioners which has never lacked the services of able men and a staff of competent experts.

Study of the judgments which the Board has delivered down the years shows clearly that the complaints lodged with our Commission are of long-standing. Most of them have been passed upon by the Board of Railway Commissioners, and, indeed, many of them have been gone over again and again in the Board's judgments. A brief summary of the Board's rulings on the issues raised by the complainants will indicate why remedial action in the form of a technically complete equalization of rates has not been considered either desirable or attainable.

The Board of Railway Commissioners is purely a regulatory body. The powers conferred upon the Board are regulative and not managerial. " It is not the Board's function, as delegated by Parliament, to make rates . . .but to deal with the reasonableness of rates either on complaint or of its own motion."[26] The Board has power to see that there is equality of tolls and facilities under substantially similar circumstances and conditions and that there is no unjust discrimination or undue or unfair preference as between persons or places. The discretion of the Board to decide what are substantially similar circumstances and conditions is unrestricted. In practice the Board has chosen to deal with each complaint of discrimination on its merits. Application of a general formula to all cases has not been thought practicable. While the railways determine their rates (the Board has no power to initiate rates) the Board must authorize all rates before they come into force. The railways are the judges as to where and how competition is to be met; they may, between specified points, lower rates below the level approved by the Board. The railways may do so for reasons of water or other competition, the promotion of trade, or the development of the general business of an area; and they may do so without lowering the general level of rates or the rates between intermediate points. Once a competitive rate has been put in, the Board may equalize competitive rates to other points. This was done, for example, in the one cent rate on wheat from Quebec eastward. The Board made the rate equal to both Maritime ports.[27] Whether such a reduction in rates by the railways is or is not discriminatory would be for the Board to decide, but it is to be noted that the Board, unlike the Interstate Commerce Commission of the United States, has no control over minimum rates. Its control is restricted to the maximum that the railways may charge. The Board has no power to act as an arbiter concerning industrial and commercial policy. If the Western farmers are suffering because of the low price of wheat and, in their view, the high price of manufactured goods, the Board has no power to adjust freight rates to moderate these conditions. Nor can the Board make rates to offset the incidence

[25] A summary of the problems involved in such rate making is given by Prof. W. T. Jackman in his *Economics of Transportation*, pp. 135, 136 in these terms: "If the cost of service were the most prominent element in the determination of rates many of the most important articles or commodities would not be able to move more than a few miles from the place of production. . . . It costs as much to transport a ton of textiles (cottons, woollens, or silks) as a ton of stone or cement; but if the latter had to pay according to the cost of service they would not move very far from the quarry or the manufacturing plant, while if the former were charged upon that basis the cost of movement would be an almost imperceptible addition to the price of the product. Instead of making rates on this basis, which would hinder the movement of commodities, rates have been made according to what the traffic can bear and the commodities of low value in proportion to bulk or weight will pay only such a low rate as they can stand, and the commodities of high value in proportion to bulk or weight will be charged a rate which is much higher but which they can stand because of their greater value. . . . The railway establishes a rate which will move the traffic; the higher-class traffic will pay the more because it can bear the heavier charge, and the lower-class traffic because of its lower value will have the burden adjusted accordingly. It would be impossible for a railway to operate on the basis of rates made for none but low-grade commodities, since it would not have enough revenue to meet all its requirements. . . ."

[26] 13 C.R.C., p. 178.

[27] *Judgments and Orders of the Board of Railway Commissioners*, Vol. XX, p. 236

of public policy in one or other sections of the country. Rates to benefit producers here or there; rates to serve national or patriotic purposes; rates to promote new industries—all rates of these kinds must be initiated, if at all, by the railways themselves or by statute. Only if questions arise as to their fairness, can the Board intervene. It is concerned, in a word, with the reasonableness of rates and with questions of discrimination and preference.

Most of the complaints made to this Commission have to do with discrimination. In this regard the Board of Railway Commissioners has said:—

"The Railway Act . . . authorizes and justifies discrimination. It is only an undue, unfair or unjust discrimination that the law is aimed against."[28]

"Discrimination may or may not fall within the provisions of the Act" [Railway Act]. "The Act, as it has always been interpreted by the Board, only forbids discrimination when it is undue or unreasonable."[29]

"Mere mileage comparisons do not afford criteria of discrimination, but all facts material must be given weight. In other words, under the body of regulation which is developed under the Railway Act, mileage is not a rigid yardstick of discrimination; discrimination, in the sense in which it is forbidden by the Railway Act, is a matter of fact to be determined by the Board."[30]

"A mere comparison of distances without consideration of the peculiar circumstances affecting the traffic is not the final criterion of discrimination."[31]

"As the result of various freight rate investigations by the Board, particularly the Western Rates Case in 1914; *re* Freight Tolls, 1922; and the General Freight Rates Investigation, in respect to which judgment issued in September, 1927, it is a matter of general knowledge that there are differences in the rates on the same traffic for similar distances in different parts of the country, and that this does not constitute unjust discrimination of the character forbidden by the Railway Act."[32]

Numerous other citations upon this point could be given.

The Board's rulings on cases dealing with water competition, which have particular relation to the Alberta complaints, are equally clear:—

"The Railway Act contains specific provisions authorizing a reduced charge on traffic handled to meet competitive conditions without necessitating corresponding reduction in normal rates, and it has been held in numerous decisions of the Board that comparison as between competitive rates and normal rates is no evidence of the unreasonableness of normal rates *per se*."[33]

"So far as water competition is concerned it has been recognized over and over again in various decisions of this Board that the extent to which water competition shall be met is in the discretion of the railway. The Board has also held that it is not the privilege of the shipper to demand less than normal rates because of such competition, unless the railway, in its own interest, chooses to meet it. This principle of water competition has also been recognized practically by all rate-regulating commissions."[34]

The question of export rates and domestic rates which is raised by complaints from British Columbia was dealt with by the Railway Commission in a judgment issued January 3, 1935. The existing rate structure was confirmed and the past decisions of the Board on the point in issue were reviewed:—

"Commenting very briefly on the broad question of import or export rates lower than the domestic rates, it may be stated that the rate structure has always recognized such a condition, and the Board has also approved of it as being, under certain circumstances, a proper one, not contrary to the provisions of the Railway Act. In many decisions of the Board, the carriers have been required to establish import and export rates lower than governing when the same traffic is moving locally between the same points in Canada, and the Board has stated, in many decisions, that an import rate is in no sense a necessary measure of the reasonableness of the domestic rate, or proving that unjust discrimination exists. Such rates are but proportions of through tolls governing on the traffic from point of origin to final destination. Further, import, as well as export, traffic is subject to port competition."[35]

On the point specifically raised in the British Columbia submission objecting to rates on grain from the Prairies to the Coast being higher than rates on grain for export, the Board has made findings on more than one occasion. One such judgment is in these terms:—

"Application was made on behalf of British Columbia that the domestic grain rate to Vancouver be lowered to an export basis. This was urged partly on the ground that it costs no more to move the one class of grain than the other, and an improper discrimination is set up by reason of such difference, and by a comparison of grain rates elsewhere.

"The first contention altogether disregards the reasons lying at the basis of export rates, and ignores also the primary test of domestic rates; which is, whether the rate be reasonable and fair. It is not intended to repeat any more fully the arguments justifying an export basis lower than that accorded

[28] 11 C.R.C., 375.
[29] 18 C.R.C., 424.
[30] *Judgments, Orders, Regulations and Rulings of the Board of Railway Commissioners for Canada*, Vol. XII, p. 73.
[31] *Ibid.*, Vol. XVIII, p. 457.
[32] *Ibid.*, Vol. XVII, p. 564.
[33] *Ibid.*, Vol. XV, p. 49.
[34] *Ibid.*, Vol. XXI, p. 282.
[35] *Ibid.*, Vol. XXI, p. 10.

to domestic traffic further than to say that the former is simply part of a through rate, and it is thoroughly justifiable from that standpoint. It does not compete with grain transported for domestic purposes and consequently no comparison between the two rates is properly drawn."[36]

These are some of the judgments which apply with respect to the specific complaints submitted to the Board, but the Commission, while declining to embark upon any scrutiny of these cases both on the ground of lack of knowledge and of authority, has thought it not beyond the scope of its duties to consider what contribution these disputes about railway rates make to friction between the Dominion and the provinces and whether the tendency of our national rate policy is to moderate or increase this friction. That policy is defined in the Order in Council of 1925 as one "of equalization of freight rates to the furthest possible extent as being the only means of dealing equitably with all parts of Canada." Is progress being made toward the fulfilment of the purpose thus avowed? Upon this point the Commission has had the benefit of extensive studies by members of its research staff; and there is agreement in their conclusions that despite very special difficulties due to conditions of geography and terrain the tendency of rate making has been and still is to lessen the regional differences and, what is also very important, to keep for Canada a position of relatively low railway rates.[37]

The movement has been toward a lessening of differentials which handicap regions. There was prepared for the information of the Commission a comparative statement in the most minute detail of maximum standard mileage rates for representative distances in the various rate territories and also "town tariff" and "distributing" class rates. These cover the whole period since the creation of the Board of Railway Commissioners (some of the comparative tables indeed going back to 1876) and in accompanying schedules there is a record of decisions by the Board.* Every fluctuation and change in the rates since 1903 is thus shown and, save for the War years, there is plainly a trend toward bringing about equalization throughout Canada.[38] The summaries of the Board's decisions show this to be a constant factor, restrained in its application, however, by the need for considering competitive influences and also by the variations in regional earning capacity due to the freight classifications.

A set of diagrams prepared for the Commission to show mileage rates for various distances in all classes for the whole Dominion covering a long term of years, indicated in every case a drawing together of the regional rates in contrast with the wide spread of former years. The relation between the standard rates, first class, 400 miles distance, at present is: Central (Ontario and Quebec) basic; Maritimes 20 per cent under; Prairies 26 per cent above; British Columbia 46 per cent above. For fifth class freight: Central basic; Maritimes 20 per cent under; Prairies 14 per cent above; British Columbia 32 per cent above. There are variations but they lie in the shelter of Board findings rendered in the light of rate-governing conditions.

We draw attention to certain conclusions dealing with these matters reached by Dr. W. A. Mackintosh in his study entitled *The Economic Background of Dominion-Provincial Relations,* which was prepared at the instance of this Commission and is published as an appendix:—

> "The outlines of the rate structure . . . have been profoundly modified by decisions of policy expressed in legislation or in orders of the Board of Railway Commissioners . . . the direction of such policy has been unmistakable. It has been toward low rates on basic commodities—rates lower than comparable rates in the United States—and toward the reduction of regional differentials or in the case of the Maritimes the restoration of favourable differentials. From the time of the Crow's Nest Pass Agreement down to the Maritime Freight Rates Act, policy, in the main, has moved in this direction. The result has been that transportation rates have been modified to the advantage of those regions least favoured by competitive influences. The chief, and important, exception was in the period 1913 to 1923 when rate changes were distinctly adverse to the Maritime Provinces." (Ch. VII, s. B.)

Variations in regional freight rates Dr. Mackintosh believes cannot be entirely ironed out unless changes involving consequences of great moment are made. His conclusions in this respect are thus stated:—

> "If it is argued that it would be desirable that all regional differentials should be removed from railway rates, it is necessary to note that such a policy would involve the following accompaniments:—
>
> 1. complete jurisdiction by a single authority over all alternative means of transportation, water, rail, road, and air; and

[36] *Ibid.,* Vol. XVII, p. 155.

[37] The only flagrant case of disturbing established differentials to the injury of a region was the equalizing of Maritime rates with those of the Central division in 1912. This was done by the management of a railway under government control against whose decision no appeal could be taken to the Board of Railway Commissioners, and this situation was subsequently righted by the Maritime Freight Rates Act, 1927.

* See Appendix, ***Railway Freight Rates in Canada*** (mimeographed).

[38] Rates for the Maritime Provinces are admittedly exceptional and covered by statutory provisions.

2. the raising of rates on basic commodities and of rates generally in the regions most subject to highway and water competition; or

3. the meeting of a part of railway costs out of taxation through payment of railway deficits by government.

The second is not possible without the first and if the first two are rejected, the third is very difficult to avoid." (Ch. VII, s. B.)

Whether either of these alternatives would serve the general public interests better than the existing system may be said to be highly doubtful. The attainment of the first would be difficult whether it should be sought by continuing agreement by ten governments or by an enlargement of Dominion jurisdiction. The second is, of course, attainable should it be decided after due inquiry that the burden of moving bulky basic commodities, essential to the national commodity, at non-remunerative rates should be borne by the taxpayers instead of being placed, as at present, upon other classes of freight by means of higher rates.

Proposal to Enlarge Powers of Board of Transport Commissioners.—We have now dealt with all the submissions embodying freight rate complaints with one important exception. The Saskatchewan Government, in its Brief, urged the study of the observations by the Duncan Commission upon the powers of the Railway Board with accompanying suggestions as to their possible enlargement presumably in the hope that we would endorse the recommendation made by that Commission.[39] Our attention was also drawn to this matter by the Transportation Commission of the Maritime Board of Trade, which strongly urged our approval of the proposition.[40] The recommendation of the Duncan Commission, if given effect, would have substantially altered the powers of the Board of Railway Commissioners. The Railway Commission, it is pointed out in the Report,[41] "does not feel itself empowered to pass under its review, when appeals are made to it, the same wide range of business considerations which railway companies themselves can take into account in forming a judgment as to the extent to which they should develop trade and business." While deprecating the view which had been presented to them that "the railways should be operated to the advantage of the trader irrespective of the financial results to the railway" the Duncan Commission goes on to say: "On the other hand, from a public point of view, in return for the statutory and other public privileges which railway companies enjoy, it may not be unreasonable that there should be a responsible review of their policy (as interpreted in their rate structure) in its relation to the natural basic products of the country, and the development of these products and associated enterprises." It therefore recommended that the Board of Railway Commissioners be given power in weighing an application involving the considerations suggested —the development of industries through rate adjustments to overcome handicaps of geography and "such reasonable compensation over all as to permit of a certain amount of trade development"—"to order an accounting investigation at their own hand, into the incidence of the railway charge on the costs of production of the commodity, and its relationship to other costs, and to the general trading results of the interest involved."

Such a change in the powers and function of the Board of Transport Commissioners would give it managing powers of a kind which it has hitherto repudiated when urged to exercise them.[42]

If the Board were given these powers to be exercised in the manner suggested, the Government of Canada would clearly be involved in responsibility for the financial consequences to the railways thus obliged, perhaps against their own judgment, to adopt policies designed for the development of particular areas or special enterprises. The recommendation, in the twelve years that have passed

[39] See "Scope of the Railway Commission's Functions", Section 12 of the *Report of the Royal Commission on Maritime Claims*, 1926.

[40] Ex. 366, pp. 18-20.

[41] *Report of Royal Commission on Maritime Claims*, pp. 24, 25.

[42] "... while members of the Board may and do, as Canadians, sympathize with policies of economic development which may through increasing diversity lead to greater economic solidarity, it is not their general opinions but the powers conferred on them by the Railway Act which determine what they can do. Very wide powers, it is true, are given under the Railway Act; but the Railway Act is not to be construed as if it were a blank cheque to be filled in as members of the Board see fit. It is not the Board's function, as delegated by Parliament, to make rates to develop business, but to deal with the reasonableness of rates either on complaint or of its own motion." Vol. XV. ***Judgments, Orders, Regulations and Rulings*** of the Board of Railway Commissioners for Canada, p. 203.

"... It is no part of the obligations of the railways, under the Railway Act, to equalize costs of production through lowered rates so that all may compete on an even keel in the same market. This phase of the complaint fails." ***Canadian Portland Cement Co.*** v. ***Grand Trunk and Bay of Quinte Railway Cos.***, 9 C.R.C., p. 211.

"... Railways are not required by law, and cannot in justice be required, to equalize natural disadvantages such as location, cost of production, and the like." ***Canadian Oil Cos.*** v. ***Grand Trunk, Canadian Pacific, and Canadian Northern Ry. Cos.***, 12 C.R.C., 356.

"... A railway company is not called upon so to adjust its rates that the shipper will always be able to carry on his business at a profit. The rate is only one item in the shipper's costs. The obligation of the railway company is to charge a reasonable rate. It is not called upon, through the reduction of the rate, to guarantee that the business will be carried on at a profit. In other words, the needs of the business and the way in which it is carried on are not the measure of the reasonableness of the rate." ***Western Retail Lumbermen's Association*** v. ***Canadian Pacific, Canadian Northern, and Grand Trunk Pacific Railway Cos.***, 20 C.R.C., p. 158.

since it was made, has not been implemented, as the submission of the Maritime Transportation Commission points out, by any modification of the Railway Act in the direction suggested; and we do not feel that the public interest would be served were we to renew the suggestion that the power of the Board of Transport should be enlarged in these respects.

* * * *

The present balance of regional railway rates is the outcome of adjustments over a long term of years made voluntarily by the railways or under the direction of the Railway Board. The possibilities of this procedure are not exhausted. The review at intervals of the freight rate structure as it affects particular regions or the whole Dominion, has had useful results in adjusting revealed inequalities as far as it is practicable to do so. This Commission makes no specific recommendation but it suggests, having regard to the length of time that has elapsed since the last general inquiry, the change in conditions due to the increased range and effectiveness of alternative means of transportation and the increasing signs of a revival of regional questioning as to the justice of the existing structure, that the present might be an opportune time to have a review of the railway freight rate structure on a Dominion-wide scale. This would make it possible to deal with the rates for water-borne transport which is now to some extent under the Board of Transport Commissioners and would permit the governments who have made representations to us to present their claims for consideration to a qualified body having power to make appropriate awards.

Chapter II

THE PROBLEM OF RAILWAY AND HIGHWAY COMPETITION

A problem of Dominion-provincial relationships, to which little attention was paid in the various submissions, but which grew in importance in the judgment of the Commission as it pursued its studies of the financial aspects of these relationships, is that arising from the situation which has been created by the emergence of the highway and the motor vehicle as a highly efficient agency of transportation. The absence of representations on this important matter can only be attributed to failure to look beyond the advantages and benefits of these new forms of competition to their secondary consequences in the field of Dominion and provincial finance. The fact that as matters stand at present there is an almost complete division of jurisdiction has tended to blur considerations of foresighted prudence which might have come into play if these powers had been in a single hand.

The problem stated in its briefest form is that an exclusive transportation system in the Dominion field established by expenditures almost astronomical in character has been effectively challenged by a newer method of transportation falling exclusively—or almost so—within the jurisdiction of the provinces, with a consequent possibility of great and increasing damage to the earlier system. The situation which has developed is that a Dominion Government investment of three billion dollars in railways, together with an investment of considerably over a billion in a privately-owned road, made originally on the assumption that railways would have a monopoly of land transportation, have now to face increasingly dangerous competition which not only divides tonnage but is destructive of the rate structure upon which the railways rely for their revenue. The provinces on their part are confronted by the need of revenue from road traffic sufficient to meet fixed and other charges on an investment already large and likely to increase at a minimum rate of $50 million per year.[1]

The problem cannot be approached with any assurance that it can be dealt with successfully without widespread and well-informed recognition that it is one of major importance and that refusal to deal with it or failure in an attempt to deal with it will have consequences, financial and political, dangerous alike to the Dominion and the provinces. Involving as it thus does both the Dominion and the provinces and having within it possibilities of so alarming a character, this question has engaged the most earnest attention of this Commission.

We have been particularly charged with examining the ways in which the cost of government may be increased by overlapping between governments. The most serious case of overlapping, and one which constitutes a menace to the financial solvency and to the economic well-being of Canada, lies in this field of transportation. We do not here allude to the expenditure incidental to the continued existence of two railway systems, for matters within the competence of a single government lie outside our terms of reference. We have in mind the fact that the provinces are now engaged in developing means of transportation which may destroy the possibility of solvent operation of the railways; and also that there is the likelihood that over-investment in transportation facilities which, in the past, through too-lavish provision of railway facilities, imposed so heavy a burden upon the Canadian economy, may be duplicated, perhaps upon an enlarged scale, in the highway development now taking place.

The basic problem is how to assure to the public a national transportation system in which all the parts will function smoothly in their proper sphere so as to furnish the best service at the lowest overall cost. For the purposes of this discussion, however, the rail-motor aspects of the whole problem of transport co-ordination are arbitrarily isolated and dealt with as a separate problem, despite a certain artificiality in this approach.

Jurisdiction Over Transportation

The railways of Canada with inconsiderable exceptions[2] are under the sole control of the federal authority. This condition has been brought about by the earlier exercise by the Dominion of

[1] Estimate by Mr. R. A. C. Henry in memorandum prepared for the Commission.

[2] Exceptions: The Pacific and Great Eastern in British Columbia. The Temiskaming and Northern Ontario, seven small railways in various parts of Canada, and generally street railways.

its right under the British North America Act to declare works for the general advantage of Canada, and by the gradual merging of the many separate roads that once existed, into two great transcontinental railway systems—the Canadian Pacific and the Canadian National. The ancillary powers over labour which followed upon this exercise of power have also been clearly defined.

The Dominion also appears to be able to exercise exclusive jurisdiction over water transportation by lake, river or canal, except possibly in the case of purely intra-provincial traffic.

Air transportation appears to be exclusively under Dominion jurisdiction.

The method of land transportation alternative to the railways—trucking and motor transport generally—falls within the jurisdiction of the provinces except with respect to interprovincial and international services. These exceptions do not as yet give the Dominion authority any large measure of control over highway transportation. Except between Quebec and Ontario, interprovincial highway motor services are not on a large scale; and the same remark applies to the volume of international business. These conditions will change with the development of motor traffic, but at present the provinces have almost complete control over highway transportation without protest of the Dominion.

In a bill introduced in the Dominion Parliament by the Minister of Transport in 1937 an attempt to exercise a measure of control over highway transportation was foreshadowed. The measure was not proceeded with, and when it was reintroduced at the 1938 session, this provision was missing for a reason frankly stated by Hon. C. D. Howe, Minister of Transport.

> "The bill differs from that of last year in that any attempt to include control of traffic on the highways has been deleted. The difficulty in that connection, of course, is that the government has jurisdiction only at certain points. Our legal officers advise me that we have jurisdiction over trucks passing from one province to another, or crossing the international boundary, or in certain of the Dominion Government parks. It was felt on reconsidering the matter that such jurisdiction as we have is too limited to be particularly effective, under the conditions which prevail in Canada, and in view of the strenuous opposition of the provinces we have decided to delete that feature from the bill this year."[4]

[4] *House of Commons Debates*, 1938, p. 911. This decision was approved by Right Hon. R. B. Bennett, then Leader of the Opposition: "I cannot but think that the Minister is well advised in not endeavouring to deal with highway transportation, having regard to the difficulties he would encounter because of the fact that it might impinge at so many points upon provincial jurisdictions."

These delimitations of control over motor transportation have been accepted with a minimum of questioning; there has been relatively little litigation over matters of jurisdiction. The situation may, however, not be permanent since main motor highways might possibly be brought under Dominion jurisdiction under section 92, subsection 10, of the British North America Act, which provides that local works and undertakings wholly situate within a province may be declared by Parliament to be for the general advantage of Canada or of two or more provinces. By the exercise of the declaratory power, Parliament attained jurisdiction over many railways wholly situated within a province, and over grain elevators. While the term "works" awaits definite judicial definition, there would seem to be no reason why it would not cover highways of the type indicated. Thus, Hon. Mr. Meighen, while the proposed Transport Act was being considered by the Senate Standing Committee, February 10, 1937, said: "It would not be unreasonable to declare that the Trans-Canada highway was a work for the general advantage of Canada."

The problem which has resulted from the emergence of alternative systems of transportation is to be found wherever there are highways and railways; but there are features about the Canadian situation which make the problem one of exceptional concern to the governments of Canada. There is, for instance, the high railway mileage in relation to population, the result of the multiplication and duplication of railway lines in keeping with policies which commanded strong popular support, and the extent to which this construction represented lavish outlays of public moneys.

The record of the extraordinary development of railways in Canada is set out in detail in Book I of this Report, and only the briefest of references to it is called for here. This record reveals faith in the beneficial effects of railways, and a resulting railway development, without parallel in the world.

In the policies of integration by which it was sought to unify the interests, economic and political, of the diverse geographical units which had been brought together to form the Dominion of Canada, railways held first place. Their construction was encouraged and assisted by the Dominion, the provinces and, in some instances, by municipalities. Indeed, in time it came to be thought that the building of a railway—almost any railway—would create, directly or indirectly, enough wealth to justify the financial risk involved in construction.

Supplementing its large expenditures for the construction of the first transcontinental railway, the Dominion Government in the year 1882 initiated a policy of offering cash subsidies, at varying rates, for the construction of railways subject to a time limit for the earning of the subsidy; within the next twenty years $26,800,000 were paid out under the provisions of the statute for the construction of local lines in the Eastern Provinces.

It was in this faith that the provinces, despite their meagre sources of revenue and their limited credit, encouraged the building of railways, supplementing those constructed under federal auspices, at first by direct aid, and later by the device of guarantees of bonds. As long ago as 1884, Sir Leonard Tilley, Minister of Finance, in submitting a proposition for readjustment of the subsidies, said that the purpose was to afford "relief to the provinces" from burdens self-imposed, in the matter of furthering railway construction. "Such," said Sir Leonard, "has been the desire on the part of the people in all the provinces to have railway extension, we know that the pressure has been such that these provinces have had, from time to time, to yield to that pressure, until there is scarcely one province that is not embarrassed at this moment, or if not at this moment, that will not be embarrassed when the engagements entered into in the shape of subsidies to roads not yet constructed are met."[5]

Later, in the stimulating atmosphere of what is termed in Book I "The Wheat Boom", the Western Provinces undertook to second the action of the Dominion Government in enabling two additional transcontinental railways to be built by assisting these railway companies to supply themselves with feeder lines by the device of bond guarantees. Confidence that these guarantees involved no risk was universal on the part of the governments that granted them and of the promoters who asked for and obtained them. They meant cheaper money for the railways and no risk for the public; why not then make free use of the magic?[6] The Western Provinces were relieved of contingent liabilities, incurred as a result of following this policy, of $85,874,000.[7] This is an item in the history of the financial relations between the Dominion and the provinces which does not enjoy the recognition called for by the magnitude of the operation.

Viewed in the light of present conditions these railway policies, which met with the ardent approval of the Dominion Parliament, the provincial governments and the public generally, appear as rash speculations, entered upon in a spirit of undue optimism. But these enterprises were projected in the pre-War era: and the estimates and predictions upon which they rested were not so divorced from reality as they appear in retrospect. There was justifiable expectation that there would be a continuous growth in traffic and that this traffic would be handled exclusively by the railways. No one saw in the motor vehicle, then beginning precariously to travel the roads built for horse transport, a competitor that, in the course of a few decades, would take from the railways a large and profitable proportion of their business. The Great War, and its aftermath of world disasters in the form of a continuing and intensifying economic war with its accompaniment of closed markets and controlled trade, in due time to breed new wars, lay below the horizon and far beyond the range of man's gloomiest apprehensions. Had the conditions which at the turn of the century seemed to justify the expectations of that day continued, the too-optimistic prophecies of that time could not, it is true, have been fulfilled, but the burden and loss arising from the over-estimation of possibilities would have been carried with no great discomfort. It ought always to be borne in mind in considering these matters that in 1913, the last of the pre-War years, although by that time the losses of too extravagant railway policies had begun to show themselves on the balance sheet, the total outstanding gross debt of the Dominion

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[5] *House of Commons Debates*, 1884, p. 1553.

[6] Manitoba appears to have initiated the technique of aid to railways by the guarantee of bonds. This practice was begun in 1898 with the guarantee of principal and interest at $8,000 a mile to the Lake Manitoba Railway and Canal Company which was the germ of the Canadian Northern system, for a railway line from Sifton to the Saskatchewan river. A series of guarantees to the Canadian Northern followed, running as high as $20,000 a mile and including lines outside the Province, for example, the Canadian Northern line from Rainy River to Port Arthur. All the Manitoba guarantees were to the Canadian Northern Railway. Saskatchewan began guarantees to railways in 1908 at the rate of $13,000 a mile given in about equal proportion to the Grand Trunk Pacific and Canadian Northern for the construction of branch lines. The Alberta guarantees, of which the Province was relieved, were given to these same railways, the amounts ranging from $13,000 to $20,000 a mile. In British Columbia guarantees were given in 1910 to the extent of $35,000 a mile for 600 miles for the construction chiefly of the Canadian Northern main line to Vancouver; and in 1914 this guarantee was increased to $40,000 a mile. There were also guarantees to Canadian Northern in 1912 at $35,000 a mile for 295 miles of branch railways. These provinces were only saved from the consequences of their policies by the fact that ultimately the roads for whose construction the guarantees were issued were taken over by the Dominion Government.

[7] Manitoba, $24,330,000; Saskatchewan, $17,904,000; Alberta, $18,394,000; British Columbia, $25,026,000; Ontario was also relieved of a contingent liability of $7,860,000.

of Canada was $483,232,555, a total which seems almost trivial to eyes accustomed to the figures of today.[8]

The disastrous collapse of ambitious private railway enterprises in the War period, which compelled the intervention of the Dominion in protection both of its financial investment in them and of the general interests of the state, resulted in the creation of the Canadian National Railway system. But it did not induce an attitude of caution toward additions to railway equipment and mileage during the next decade. There was a still unshaken faith in a policy of agricultural expansion in the West, with an accompanying confidence in the willingness of the outside world to buy the products of this expansion.[9] This, together with the industrial boom of the twenties, which was interpreted as the beginning of a period of rapidly rising prosperity, encouraged the investment of new capital by the railways.

The Canadian Pacific, in the period 1923-1935, inclusive, made net capital expenditures of $364,009,039. The Canadian National Railways in this period made net capital expenditures of $461,258,000. The combined total was $825 million. Most of this money was spent prior to 1930. The mileage of the Canadian Pacific grew from 13,123 miles in 1923 to 17,222 in 1935 and that of the National Railways from 21,851 to 23,684.

The story of the astonishing growth of railways in Canada is indicated in outline by mileage figures. In 1870 there were 76 miles of railway for every 100,000 of population; by 1901, they had risen to 338; and by 1917, the year of the Drayton-Acworth report, to 469, which represented the peak. In 1936, with a population of 11,028,000, there were 42,552 miles of railway in operation, or 385 miles per 100,000 of population. This is nearly twice the corresponding figure for the United States. Canada, indeed, overhauled the per capita mileage figures of the United States as long ago as 1884, and thereafter in proportion to population ran far ahead of her neighbour in the projection and building of railways.

Public opinion in the twenties showed little uneasiness as to the future of railway transportation. The common view was that there had been undue expansion for which the country would have to pay, but there was no realization of the full seriousness of the situation, nor of the fact that rival forms of transportation were beginning effectively to challenge the railways. This lack of appreciation of the true situation can be explained, no doubt, by the tendency to take the Canadian Pacific rather than the Canadian National as the index of normal railway operations. There was no indication of impending difficulties in the operation of the Canadian Pacific. The net operating income of the Canadian Pacific Railway rose from $37,479,000 in 1923 to $51,694,000 in 1928; an increase which seemed to foreshadow continuing prosperity.

The experience of the depression, however, revealed the realities of the situation in which the railways find themselves. Not only are they burdened by a capital investment of staggering proportions, but on the income side it has been made apparent that their normal sources of revenue have now to be shared with new agencies of transportation which, in certain respects, are destructively competitive. A study of the records shows that this competition has been operating with ever-growing effectiveness since 1920, but the public is only now becoming conscious of the problem for the railways and for the governments of Canada which this condition is creating.

There are various ways in which the effect of this competition upon the railways can be measured. If the industrial production of Canada is plotted on a graph, together with the movement of freight by rail, it will be seen that the rail movement up to 1924 was, on average, about 20 points higher than industrial production. When production increased, the movement of rail freight increased proportionately. But after 1924 these lines rapidly converge. The line of industrial production passes through and above the line of rail freight movement in 1926 and since 1933 there has been an ever widening gap between the two. Today, industrial production stands more than 30 points above the movement of rail freight.[10] Told in another way, the volume of rail freight increased about 6 per cent per annum between 1890 and 1920. From 1920 to 1929, a period of great economic expansion, the increase was but 2 per cent per annum. Thus the railways have suffered progressively from competitive methods of transportation (and from greater rationalization of Canadian industry, elimination of cross-shipments and industrial unit self-sufficiency). This competition has come from several agencies—as, for instance, from facilities for shipping provided by the Panama canal which have

[8] These are the figures given in the Public Accounts published annually by the Dominion Government. The debt of Canada and the provinces on all counts, inclusive of railway obligations as shown in the consolidated statement prepared for this Commission, was $794,269,000.

[9] See Terms of Order in Council *re* Inquiry into Freight Rates, 1925, in previous chapter.

[10] Lesslie R. Thomson, *The Canadian Railway Problem*, p. 276.

cut into transcontinental business and also forced a reduction in transcontinental rates. But our inquiry here is limited to the conditions which are the result of competition between the rail carriers and the comparatively new motor carriers, and the problems it is creating for the governments in Canada.

The astonishing development of the automotive industry can be indicated by a few striking figures. In 1904 there were 535 registered motor vehicles in Canada, all in Ontario; in 1936 they numbered 1,240,124, nearly half in Ontario.

A tabulation of provincial expenditures on motor highways (exclusive of expenditures for rural roads and urban streets and also of $40,000,000 given for highway construction by the Dominion as a relief measure) up to 1937 prepared for the Commission by its research department shows a total outlay of $549,725,000 of which $228,053,000 was spent by Ontario.[11]

Great as has been the growth in the number of motor vehicles, the development of motor highways has been proportionately more rapid. From 1925 to 1936 motor registrations increased in Canada at the rate of 5 per cent per annum, while the aggregate investment of the provinces in motor highways in the same period grew at the rate of 9·5 per cent per annum.[12] These statistics are significant as showing the strength of the public demand for highways to meet not only the present but the developing needs of motor transportation.

What are the effects of this competition on the railways? In what respect does this conflict of interest between railways and highways affect Dominion-provincial relations? Is an arrangement or understanding between the Dominion and the provinces possible which will be mutually advantageous and also of benefit to the general public by providing a national co-ordinated system of transportation which will give maximum service at minimum cost? What are the lines upon which such a readjustment might be made? It is to these questions that we shall now direct our attention.

The public advantages of motor transportation will be discussed later; we here direct attention to some of the consequences to the railways of motor competition. No exact figures of the effect of highway competition on the earnings of the railways are available; but there are reliable estimates which indicate a progressively large percentage of the freight business of the country is going to the trucks. A statement prepared jointly by the railways for the information of the Duff Commission gave three million tons of freight and $24,000,000 in earnings as the share of the trucks in 1930. By 1937 the earnings of all common carrier and private trucks operating over the highways were estimated at $59,503,000 by the Bureau of Research and Development of the Canadian National Railways. In 1930, with motor earnings of $24,000,000, gross railway freight earnings were $322,733,000; in 1937 railway freight rate earnings had fallen to $270,498,000 and motor earnings had risen to $59,503,000. This Commission has been given by its own experts an estimate of an annual loss to the railways from highway competition of from $75,000,000 to $80,000,000 of which $30,000,000 represents lost passenger traffic. These comparative figures are to be borne in mind in any consideration of this question; they are significant as to the nature and seriousness of the problem.[13]

Trucks have extended the area of water competition in the Great Lakes region to the whole district which can be served by trucks plying from lake ports. There has been a spectacular increase in travel by private motor car. There has been a steady rise in the transport of passengers by buses, threatening electric railways with extinction. A new situation exists. The monopoly of land transportation by the railways is gone, and they are faced with competition not foreseen when the railway structure of Canada was in the process of building.

In competition with motor transport, railways are particularly vulnerable with respect to short hauls and to particular classes of freight. In this last respect motor competition is destructive of the freight rate structure upon which the railways rely for their earnings. The principle upon which railway rates are fixed and the reasons for its application are thus stated in a memorandum prepared for the Commission.

> "It was very early found, in the history of rate making, that the charges for transportation could not be apportioned amongst the different articles of freight based solely upon the cost of transporting them severally, even if such cost could be ascertained, because if an attempt were made to base rates entirely on the full operating cost for each particular commodity, or character of service rendered, it would restrict within very narrow limits the commerce in articles whose bulk and weight are large as compared with their value; consequently, the carriage of low-grade commodities for considerable distances would

[11] The Ontario expenditure until the end of 1938 is given as $296,593,340 in the report of the Ontario Commission on Transportation.

[12] From material prepared for the use of the Commission and its research staff by Mr. R. A. C. Henry.

[13] *Ibid.*

be prevented, while the rate for carriage of other articles of much greater value would be absurdly low.

"The actual difference in the cost of the movement of a carload of silk and a carload of coal is relatively insignificant, compared with the difference in the value of the two carloads and, under any theory of cost of service, the rate on coal would be prohibitive, whereas the silk would not contribute its fair share to the carrier's revenue. Accordingly, it has always been considered not unjust to apportion the whole cost of service on all the articles transported upon a basis which has regard to many considerations."[14]

Thus the state from the outset gave railways the power to provide themselves with a subsidy for carrying bulk freight at a charge which made little contribution to the overhead cost of the railway by exacting from the shippers of articles of high intrinsic value rates far in excess of the actual cost of transporting the goods. This is popularly called fixing rates "on what the traffic will bear." Railway services could have been supplied on no other basis. To fix rates on the sole basis of cost would mean prohibitive rates for bulky and relatively cheap articles such as fuel, lumber, agricultural products. A country of vast distances such as Canada could not have been developed on any such plan of rate-making. This rate-making by the railways thus presents highway carriers with favourable opportunities, of which they take full advantage, for choosing particular classes of traffic to which high railway rates apply. Convenience and expedition of movement, and less exacting packaging requirements are further trucking advantages which tell heavily against the railways. Motor truck operations compete with railways chiefly in the class of goods designated as the merchandise group. The effect is the undermining, on an ever widening scale, of the basic principles of rate-making, particularly in the short hauls.

Within the area of effective operation motor service has replaced the principle of "what the traffic will bear" by, at best, a charge representing the cost of carriage plus a profit, and often by a bargain rate based upon "what the carrier can get."[15]

[14] *Ibid.*

[15] Everywhere this is the effect of motor competition upon one of the main sources of railway revenue. Thus Sir Josiah Stamp (now Lord Stamp), Chairman of the London Midland and Scottish Railway, speaking at the annual meeting of his company, February 27, 1937, complained that "the ability of road hauliers to pick and choose traffic and to change rates and charge without any responsibility for transport as a whole continues to wear down the upper ranges of that railway rate classification on which the industry of the country has been built up."

The character of this competition and its effect on Canadian railways were thus stated to the House of Commons by Hon. C. D. Howe, Minister of Transport.[16]

"We have built up over the years a rate structure which I think we all believe is absolutely essential to the well-being of Canada. The basis of that rate structure is that low-price commodities shall be carried at a low rate, and that the natural products of our country, particularly those of our prairies, shall be carried the great distances to our seaboard at export rates which are undoubtedly the lowest on this continent. I believe Canada has the lowest ton mile rates of any country in the world. To permit our railways to carry these commodities the long distances at exceedingly low rates, it was necessary that the structure provide that the rates on commodities of a greater value and moving shorter distances should be proportionately higher. The rate structure having been built on that basis, the result is that the railroads have been exceedingly vulnerable to competition from motor trucks. These motor trucks are interested only in high-grade commodities, and serious inroads have been made in the tonnage of these commodities carried by the railroads."

It is in this capacity to pick and choose that motor service finds its opportunity to do a profitable business. But it is not an agency that, however it might be extended, could supply a service, on the lines upon which it is operated, at all comparable with that given by the railways. The average cost of moving all freight carried by the railways is one-half cent per ton per mile; on highways the standard rate is about five cents, but the information in the possession of the Commission is that this rate is falling, particularly in Ontario, and that some freight moves by truck at three cents per ton mile. It is thus evident that trucks are usable for only certain kinds of traffic. Railway freight services remain indispensable to the Canadian economy and must be supplied. This is an unchallengeable fact which cannot be overlooked in the consideration of this question.

In an effort to meet this competition in areas where it is particularly effective, the railways have been experimenting with modifications, regional in character, in their rates and services by establishing for less than carload freight "pick-up and delivery"

[16] *House of Commons Debates*, 1938, p. 1636.

rates designed to meet the trucks on their own ground.[17]

But competition since 1937 has operated remorselessly to undermine this tariff. The railways have been compelled again to reduce their charges. One example is the rate on first class less than carload traffic between Toronto and Montreal. The 1937 rate was 83 cents per hundred, but this has now been reduced to 70 cents on any commodity in lots of 1,000 pounds or over and 60 cents in lots of 5,000 pounds or over, both including free pick-up and delivery. The experience in Central Canada shows that truck competition influences railway rates on haulages up to 650 miles. With respect to carload rates, the railways have adopted a different method. The railways meet carload competition as it arises by fixing rates as and when competition requires.

The lowering of railway rates in the Central Provinces has lessened the advantages given to Maritime shippers under the Maritime Freight Rates Act which was passed to meet the recommendations of the Duncan Commission, and this has given rise to protests, to appeals to the courts and to representations to this Commission. The effects of these readjustments in the freight rate structure will be felt elsewhere, as was stated in the Brief of the Transportation Commission of the Maritime Board of Trade: "Industries outside the pale of the competitive area are at a distinct disadvantage because of destroyed parities and also because of the conveniences their competitors enjoy through the greater flexibility of truck transportation."[18]

The tendency toward equalization of sectional freight rates, noted elsewhere[19] is thus being checked and may in effect be reversed. This would be a definite departure from a policy accepted as desirable in the interests of national unity.

Other experimental modifications in the traditional railway freight rate structure are also being made in the hope that the competitive position of the railways will thereby be improved. A provision in the Transport Act of 1938 permits a railway to make an arrangement with a shipper for the transport of all or any part of his goods at "agreed rates" subject to approval by the Board of Transport Commissioners. These rates may be lower than the rates in existing tariffs provided they do not involve "unfair discrimination". This provision is an adaptation of British railway legislation of 1937. The hope behind it was that by making agreements with a shipper, whereby his shipments would be carried for a stipulated period at a rate reached by negotiations, the railways would be able to protect themselves to a considerable extent against motor competition. In the annual report of the Canadian Pacific Railway for 1938, issued in March 1939, it was announced that appropriate regulations and methods of procedure under the Act were being worked out between the railways and the Board, foreshadowing an effort to take advantage of the provision. By the end of the year four applications providing for "agreed rates" affecting a considerable volume of freight had been negotiated between the railways and shippers and approved by the Board, while two other applications were pending.

These expedients—lowered regional rates, pick-up and delivery facilities, and adoption of "agreed rates"—are expressions of a hope once generally held in railway circles, and still entertained in some measure, that in the long run the superiority of railway services would be established. Those who hold this view foresee higher taxation for the trucks to meet the greater cost of the improved highways that will be required, increasing costs in the operation of trucks, greater railway efficiency and the progressive freeing of the railways in the matter of rate-making. An objective survey of the situation is apt to suggest that these are hopes rather than justified predictions. The question remains whether or not there is to be a continuing "free-for-all" between these competing services with increasing capital outlays in the newer field leading to almost certain over-expansion in the total investment in all transportation.

In dealing with this problem of transportation the prime consideration must be the general public

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[17] In the Central Canadian area extending from Windsor to Quebec and north to North Bay and Sault Ste. Marie, the first railway tariff to meet motor competition became effective in 1933. Under pressure of competition, the 1933 tariff had to be changed, and on June 14, 1937, it was superseded by a new tariff. The 1937 tariff made five important changes:

1. The railways gave free pick-up and delivery to and from named stations. The Canadian Pacific, for example, named 140 stations, some of them being towns with less than 1,500 population. This free service is equivalent to a reduction of 10 cents per hundredweight on the normal rate.
2. The packaging rules were made easier and the penalty clauses, in effect, were withdrawn.
3. A special classification was provided which reduced the rate on a wide class of traffic.
4. In a number of commodities, the carload rate was given to "any quantity" shipments, with free pick-up and delivery thrown in.
5. A wide reduction in rates was made.

[18] Brief, p. 9.

[19] This matter of sectional equalization of freight rates is discussed in the preceding chapter of this section, "Railway Policy As Affecting Freight Rates."

interest. This interest is not identical, either with the protection of the older forms of transportation against newer methods which, in respect of many commodities, are more convenient, more efficient and cheaper, or with the subsidization of these newer methods by artificial advantages supplied at the public expense. Nor can the general public interest be identified either with that of the shippers and consumers of heavy and bulky commodities, who desire to perpetuate a rate structure affording them low rates, or with that of the shippers and consumers of those commodities which have in the past borne rates that absorbed a high proportion of the overhead costs of the railways and so made possible the low rates for heavy and bulky goods.

It must be remembered that when this rate structure was built up there was no fundamental clash of interests as between these two classes of shippers and consumers. There was no deliberate sacrifice of one set of interests to the other. There was a union of interests. Both heavy and light goods received the benefit of lower rates than they would have had to pay had the other party to the union been excluded. In a sense, therefore, the shippers of light and costly goods received help from the carriage of heavy and bulky goods on terms which made some contribution, slight though it sometimes may have been, to the overhead costs of the railways. The aid which the railways received from the state was thus extended to all shippers and to all consumers. The vital element in the transportation problem today is that conditions have arisen which destroy this union of interests so that a once happy marriage faces dissolution. As in all divorces the immediate interests of the parties may have to be subordinated in some degree to the general public interest. But it is peculiarly difficult to say where this general public interest lies.

This Commission is not the body which must define this general public interest. It is concerned rather with the question of where it is desirable that the responsibility for defining this interest and the power to give effect to it should lie. A decision must be reached in Canada as to the adjustments to be made between various competing interests, all subject to the idea of a general public interest which includes them all. The shippers and consumers of heavy and bulky commodities are of great importance in the Canadian economy and a rate structure which curtailed the movement of these goods would involve a most serious dislocation of that economy. The shippers and consumers of light and costly goods naturally feel that they are entitled to the advantages which new and more efficient forms of transportation might afford them and that it would be outrageous to require them to continue to buy their transportation facilities in indissoluble partnership with others whose interests no longer coincide with theirs. Taxpayers are, presumably, reluctant to assume the enormous burden which may be involved in subsidizing (directly, or indirectly through meeting railway deficits) the movement of heavy and bulky commodities. Taxpayers ought certainly to be spared the misfortune, which may easily arise from the present system of divided jurisdiction, of having to subsidize both classes of shipper and consumer—by absorbing railway deficits through the Dominion treasury, and providing roads at the public expense through provincial treasuries.[20] In a general way it is easy to say, and hard to deny, that the situation is one which calls for gradual adjustment based on intelligent and generous compromise. The form of compromise cannot be predicted with any precision. Presumably what would be aimed at would be a revision of the rate structures both of railways and of highway carriers, the effect of which would be to divide traffic between them so that the railways would be kept from bankruptcy, while shippers and consumers of goods likely to move by road would make some sacrifice during the period of adjustment. At the same time (as will be explained later) the taxation of trucks might be put on a basis that would protect their competitors against any danger of subsidized competition.

With this idea in mind the possible allocations of jurisdiction may be briefly reviewed. Exclusive jurisdiction by the Dominion would concentrate power and responsibility. But (as will appear when conditions in Great Britain are examined) even a single omnipotent authority may find the transportation problem extremely difficult. In Canada (as a comparison with American conditions will show) it would not be easy to regulate transportation in the national interest without frequent interference in matters of vital provincial interest.

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[20] In a sense the roads pay for themselves if the provincial taxes on automobiles and gasoline can be regarded as earmarked for road construction and maintenance. But, even on this favourable hypothesis, the operators of commercial vehicles are heavily subsidized at the expense of private users. This somewhat leonine partnership has points of resemblance with that between the shippers of heavy commodities and the shippers of light commodities in the case of rail transportation. If this is not too fanciful an idea the jackal of the railway partnership has developed into the lion of the road partnership.

Concurrent jurisdiction by the Dominion and the provinces would avoid the evil of debarring a province from dealing on its own initiative with matters of urgency. But it would expose provinces to constant danger of reversal of their policies by the Dominion and this danger would be particularly serious in view of the large capital investment involved in road construction.

The present division of powers may easily lead to chaos, unless the policies of the Dominion and the provinces can be co-ordinated. But, given a disposition on the part of the various governments to co-ordinate their controls over transportation and their financial aid, so as to leave to each type of transport a chance to perform on remunerative terms those classes of service which it is best adapted to perform, the Canadian transportation problem may not be insoluble.

The Commission, while it can make no specific recommendation as to the lines which governmental action should take, feels that it can usefully stress the seriousness and urgency of the problem, illustrate some of the difficulties which must be faced, and make some suggestion as to the possible methods of securing co-operation between the Dominion and the provinces in framing a co-ordinated national transportation system, either on the basis of the present distribution of legislative powers or of some modification of it. It will, however, be useful to discuss first British and American experience.

BRITISH AND UNITED STATES EXPERIENCE

BRITISH EXPERIENCE

In Great Britain the clash of interests between the railways and motor vehicles has engaged the attention of the Government and Parliament for the past decade; and the record of the efforts, not as yet completely successful, to find an adjustment satisfactory to the interests affected and to the public throws a measure of illumination upon the Canadian problem—all the more perhaps because in Great Britain there is not the complication of divided jurisdiction. Authorities have to deal only with the difficulties inherent in the situation; but for these they do not appear to have found completely satisfactory solutions.

Following a report by an earlier commission, a conference of transportation authorities was held in 1932 which produced what is commonly known as the Salter Report. This Report recognized that the road transportation service had advantages and had come to stay. In fairness, said the Report, it must be admitted that part of the railways' troubles was due to the motor vehicle being more convenient and economical for many classes of traffic. "It would be undesirable," said the Report, "to attempt by taxation beyond what is in the public interest, to divert traffic back from the roads and deprive trade and industry of the convenience of the new form of transport. . ." The railways were advised, in lieu of their lost monopoly, to "look to their share of a generally increasing total of trade, as economic activity expands with population and higher standards of life, and to the new facilities they can themselves offer to the public by co-ordinating railway transport with road transport, whether their own or not."

Thus, in this first attempt in Great Britain to supply a working solution, certain broad propositions were laid down: road competition with the railways, given fair conditions, was legitimate and in the public interest; the approach to a solution must be by co-ordinating railway transport with road transport, which meant a division of function to be determined by efficiency and by convenience.

The Roads and Rail Traffic Act of 1933, based on the Salter Report, provided for the licensing of all highway hauliers. Owners of motor vehicles engaged as public or contract carriers already in business (1932-33) were given licences and the licences ran for one or three years according to the kind of business done. The licensing authority was instructed not to grant licences, additional to those in existence in 1932-33, unless the public interest required it. The authority should consider "any objections to each application which may be made by persons already providing facilities, whether by rail or road, for the carriage of goods for hire or reward in the district or between the places which the applicants intend to serve on the ground that suitable transport facilities, either generally or in respect of any particular type of vehicle are (or would be) in excess of requirements, or on the ground that any of the conditions of a licence have not been complied with". Two years were allowed as a transitional period during which the authority could study the road problem in order that the intention of the law could be given effect to when the licences came up for renewal.

The railways regarded this legislation as intended to confine the future road haulage business to the position it occupied in the base year 1932-33, a year of industrial depression; and when at the expiry of the transitional period two transport companies had their licences fully renewed the four main line railway companies took an appeal to the Road Traffic Appeal Tribunal on the ground that these licences under the law should be reduced in number. The railways, in their case, relied upon a statement made by the Government spokesman in the House of Lords, when the Roads and Traffic Bill was being considered, "that the granting of licences would be against the public interest if it were considered that existing transport facilities suitable to meet the public requirements to be served by the applicant were already in existence".

The judgment of the Appeal Tribunal was against the railways on all counts; and the licences were continued though it was established that the hauliers were carrying traffic previously handled by train. The Tribunal refused to the word "suitable" the meaning ascribed to it by the railways; while the railway service was admittedly physically adequate, it was not, they held, necessarily suitable. The Tribunal found that the licensing authority had no jurisdiction over road charges even when

they were less than railway rates, and stated, further, that the Act did not require a licensing authority to decide which goods should be rail-borne, and which should go by road. It was held that it was not the duty of the licensing authority to make any classification of goods to be carried by rail and road respectively, nor was it its duty to consider the question whether it was in the national interest that the existing railway facilities be more fully employed. For the remedy of these grievances, the railway companies were advised to go elsewhere—that is, to Parliament.

The railways then sought and obtained authority from Parliament to make special freight arrangements with large shippers on the basis of "agreed charges"; and when this method did not prove satisfactory to them they sought complete freedom in the making of rates. The British Railway Companies on November 23, 1938, waited upon the Minister of Transport and presented a petition asking (among other things) that: "The existing statutory regulation of the charges for the conveyance of merchandise traffic by railway, together with the requirements attached thereto, including such matters as classification, publication, and undue preference should be repealed"; and, also, "that railways, exactly like other forms of transport should be permitted to decide the charges and conditions for the conveyance of merchandise which they are required to carry. Equality having been achieved, any regulation imposed on one should be imposed on the other."

This demand was referred by the Minister of Transport to the Transport Advisory Council, and there followed lengthy inquiry by the Council with accompanying negotiations between the railways and various organized interests (road hauliers, iron and steel federation and traders) which resulted in agreements between them and the railways except in the case of the coal industry. The Transport Advisory Council reported in May, 1939, advising the passage of an act limited to five years which would recognize these agreements and provide for further negotiations and conferences as these might be required with an appeal to the Railway Rates Tribunal in the event of failure to reach agreement. Subject to these provisions, the report recommended that the present system of control of railway freight charges including the traditional classification should be abandoned; and that, subject to certain safeguards, the railway companies should be entitled to make such reasonable charges as they might think fit. But the freedom thus proposed for the railways appears to be somewhat illusory. The railways undertake to maintain a voluntary system of classification; they engage not to increase existing charges and rates save by agreement with the organizations and trading interests indicated; and they submit to the provision that the reasonableness of their rates may be made the subject of an appeal to the Railway Rates Tribunal.

The net result of the ten years of negotiation and experiment was this finding by the Transport Advisory Council that the railways should be freed in some measure from the controls which had been imposed in the public interest when they had a monopoly of transportation and thus enabled to deal with rival interests either by competition or by arrangement. No attempt was made in the finding to bring about unified control or to provide for a division of traffic on the basis of relative efficiency.[1]

Sir Arthur Griffith-Boscawen, Chairman of the Transport Advisory Council, in a public statement following the award said:—

> "Such is the 'square deal' as rounded off by the Transport Advisory Council. It is now up to the Government and Parliament to implement its proposals as they think fit. I regret that legislation is not possible in the present session."[2]

Legislation to give effect to these findings has not yet been enacted, owing to the outbreak of war. Available information is that the question has been shelved for the duration of the War.

The United States Experience

Since motor transportation has developed further in the United States than in Canada and has been the subject of various legislative attempts at control there, the results of this experience may be of assistance in determining policies in Canada. The United States problem is not dissimilar, but the control which the Federal Government has over the vast interstate traffic gives it a power in support of its views as to desirable policies of co-operation which is far beyond any exercisable by the Dominion Government; and it has in addition the persuasive power which comes from a policy of making large conditional grants for highway construction purposes. Federal highway aid to states and municipalities, which was $75 million in 1930, amounted in

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[1] This was made the occasion for critical comment by the London *Times* in its issue of May 30, 1939. "The truth is" said the *Times* "that no plan other than unification of transport would really solve the railways' problem. . . . It is only by some system of pooling and bringing road transport into an organized controlled rate schedule that financial stability of the railways could ultimately be restored and assured."

[2] *Sunday Times*, May 28, 1939.

1938 to $138 million in regular funds and $122 million in emergency relief, making a total of $260 million. Expenditures on this scale are likely—if not assuredly—to be accompanied by a measure of control by pressure or by suggestion. "Both municipal and state officials fear that the grants-in-aid system will be used as a vehicle to force a federal pattern upon them."[3]

The rapid development of motor transportation was made possible by the existence of an extensive network of highways and, of course, this development in turn has stimulated the expansion of highways. The state roads supported by revenues collected from highway users and by federal aid grants form the backbone of this network. Secondary and feeder roads are maintained by counties and townships; recently they also have been receiving federal grants.

The federal Government is responsible for seeing that the highway system meets the needs of national defence. As a means of promoting this end the Federal Road Act was passed in 1916, under which the states receive from the Federal Government up to 50 per cent of the cost of construction and maintenance of certain designated roads. The United States Bureau of Public Roads, under the authority of the Federal Road Act, "necessarily and very properly seeks to co-ordinate the road-building activities of the United States and thus to provide an integrated national system of adequate highways.[4] In 1936 the Bureau embarked on a comprehensive program of state-wide planning surveys in co-operation with various states which "are expected to result in the provision of all the facts necessary for the formulation of a definite highway program, defensible both economically and socially.[5]

Complying with a request by Congress, the Bureau submitted in the spring of 1939 a report on the feasibility of a group of toll super-highways across the country. In the second part, this report

> ". . . discusses at length the development to date of the composite street and highway system of the country, and presents the general outlines of what in effect is a master highway plan for the Nation."[6]

[3] Raymond S. Short in *Annals of the American Academy of Political and Social Science*, January, 1940, p. 47.

[4] "Extent and Possibilities of Highway Regulation," by Dawes E. Brisbine and George M. Adams, *The Annals of the Academy of Political and Social Science*, January, 1939, p. 235.

[5] H. E. Stocker, *Motor Traffic Management*, New York, 1938, p. 93.

[6] Letter of Submittal of H. A. Wallace, Secretary of Agriculture, contained in *Toll Roads and Free Roads*, House Doc. No. 272, 76th Congress, 1st Session.

The interest of the Federal Government in highway matters, therefore, is much deeper and broader than simply to act as a distributor of funds to the states.

The rapid growth of motor transportation was accompanied by a wide differentiation of functions. The economic and social implications of this rapid expansion in size and function were summarized by the Federal Co-ordinator of Transportation in 1936 in these terms:—

> "Transportation conditions have changed radically since the World War, and they are still in a stage of rapid transformation...
>
> "Highway transportation, in particular, has brought about important changes in industrial and social conditions. It has had much to do with the growth of so-called 'hand-to-mouth' buying, and has probably tended to increase short-haul as compared with long-haul transport and spread the production of manufactured goods throughout the country. It is probable, also, that it has materially increased the sum total of labor engaged in transportation, although the number of railroad employees has sharply decreased. Certainly it has enormously increased the travel habit of the American people.
>
> "The country has gained from these transportation changes. Much service has become quicker, more convenient, or more comfortable, as well as cheaper. But not all of the results have been good, and some of them threaten the future. The problem is to get rid of the evil results and to preserve and multiply the good."[7]

The "evil results" which thus threatened the future were those of an over-supply of transport facilities. With motor carriers of freight, in particular, the comparative ease of inaugurating a small trucking enterprise led to such an influx of operators that competition became extremely keen. After 1930 conditions became rapidly worse, as mounting unemployment and large numbers of cheap trucks increased the supply of service and declining business activity decreased the available traffic volume. Rates were drastically cut in the pursuit of traffic and many shippers took advantage of the situation to force further concessions. The result was a condition within the industry of extreme instability. External to the motor carrier industry, the railroads were immediately affected by the rapid growth of very keen competition for their highest-rated class of traffic.

Out of these conditions there finally arose sufficient pressure to force passage of a Bill in 1935 for federal regulation of motor carriers engaged in interstate operations.

[7] *Fourth Report of the Federal Co-ordinator of Transportation on Transportation Legislation*, January, 1936, pp. 1-2.

There had already been for a considerable period of time regulatory provisions by the states over motor transportation engaged in intra-state commerce. For the most part these regulations were applicable only to common carriers. In the early years there was doubt as to how far state regulation could go in controlling interstate operators using state highways. But in March, 1925, the Supreme Court of the United States rendered decisions[8] that the states could regulate interstate operators only in so far as their police powers covered safety and conservation of the highways. From that time, therefore, until federal regulatory laws were passed in 1935, there was no real control over interstate motor carriers.

By 1931 practically all of the states had laws regulating intra-state operations of common carriers, both of passengers and property, and the majority of them also had taken control over contract carriers of property. The right of the states to be adequately reimbursed by highway users for their highway expenditures had become a factor in state regulation and it was rapidly becoming apparent that the regulatory problem was broader still, involving also the need for some degree of control to counteract the growing instability within the industry.

The situation at the time the Motor Carrier Act was passed (1935) has been thus described by the Interstate Commerce Commission:—

> "The situation in the motor-carrier industry when the act became effective was no less than chaotic. The years of depression had materially increased the number of motor carriers, particularly carriers of property. With an increasing number of carriers, competition became intense, resulting in rate wars, wide-spread evasion of State regulations, destructive practices of various kinds. The whole structure of industry was weakened. Business mortality among such carriers, predominantly the small operators, was high. Highway accidents had become a national problem..."[9]

In 1933 the National Recovery Administration placed both buses and trucks under self-made code regulations. Self-regulation was only partially effective, but the short experience under the codes was an important factor in bringing the larger operators in the industry to favour federal regulation.

The Federal Co-ordinator of Transportation submitted reports over several years in which he recommended comprehensive federal regulation; and he was instrumental in drafting the bill which finally became law. His ideas were influenced by the need to stabilize the chaotic conditions of the time, although he evidently had hopes that federal regulation would also have other far-reaching results. He wrote:—

> "... A partial and incomplete system of regulation such as we have had, will not work... Unless competition is brought under greater restraint, it can bring only wide-spread losses to shippers, to communities and sections of the country, to investors in rail, water, and motor facilities, and to the public generally. Competition between the different forms of transportation will continue to have an important part to play, but it must be held within reasonable limits and kept from assuming destructive and wasteful forms. The transportation system must be knit together and co-ordinated. This can only be done under the guiding hand of the Federal Government... Regulation should build on the experience of the States and give them the support they need in carrying their own efforts at regulation to a more successful conclusion."[10]

The Motor Carrier measure which had been backed by the Interstate Commerce Commission, the various state regulatory bodies, commercial interests, various competing forms of transportation, and by a considerable section of the motor carrier industry itself representing the larger operators, became law in August, 1935, as Part II of the Interstate Commerce Act; and as such is administered by a separate division of the Commission with a Bureau of Motor Carriers to look after details.

The Declaration of Policy contained in the Act reads as follows:—

> "It is hereby declared to be the policy of Congress to regulate transportation by motor carriers in such a manner as to recognize and preserve the inherent advantage of, and foster sound economic conditions in, such transportation and among such carriers in the public interest; promote adequate, economical, and efficient service by motor carriers, and reasonable charges therefor, without unjust discriminations, undue preferences or advantages, and unfair or destructive competitive practices; improve the relations between, and co-ordinate transportation by and regulation of, motor carriers and other carriers; develop and preserve a highway transportation system properly adapted to the needs of the commerce of the United States and of the national defence; and co-operate with the several states and the duly authorized officials thereof, and with any organization of motor carriers in the administration and enforcement of this part."[11]

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[8] *Buck* v. *Keykendall*, 267, U.S., 307 and *Bush Co.* v. *Maley*, 267, U.S., 317.

[9] 50th Annual Report of the Interstate Commerce Commission, 1936, p. 88.

[10] *Regulation of Transportation Agencies*, Senate Doc. No. 152, pp. 23-4, 73rd Congress, 2nd Session.

[11] Interstate Commerce Act, Part II, Sec. 202 (*a*).

The Act provides for regulation of interstate common and contract carriers of both passengers and freight and also of brokers. Private truckers, with the noteworthy exception of farm trucks, may be regulated from the standpoint of safety "if need therefor is found". The principal provisions applying to common and contract carriers may be thus summarized:—

(1) Although all bona fide carriers in existence when the Act was passed were allowed to continue operating, new operators, or the extension of existing lines into new territory, must first be given permission by the Commission in the form of a certificate of convenience and necessity for common carriers or a permit for contract carriers.

(2) The Commission has control over the issue of securities, consolidations, mergers and acquisitions of control.

(3) Control over rates to prevent unreasonableness, undue prejudice, disadvantage or discrimination is similar to that relating to railroad rates. Contract carrier contracts must be filed with the Commission and common carrier rates must be made public in published tariffs. The Commission may prescribe minimum rates and charges for both common and contract carriers.

(4) Rules governing such matters as qualifications and maximum hours of employees, compulsory insurance and self-insurance qualifications and safety regulations may be prescribed.

(5) Standard accounting practice and periodic statements and reports are required.

(6) Numerous penalty powers, including suspensions, revocations, heavy fines and imprisonment, are provided.

(7) In administration, close contact with state regulatory personnel familiar with local situations is provided through the appointment of joint boards composed of representatives of the states involved, to hear and report on individual cases.

Present Conditions.—Since 1935 the scope of federal and state control has been fairly well defined. The states regulate intra-state for-hire carriers, both common and contract, and they have proceeded to systematize their regulatory provisions, frequently along the lines suggested by the Interstate Commerce Commission. Some progress has been made in bringing about uniformity among the states with regard to safety rules and equipment requirements. Extension of state regulations for safety purposes to private trucks is proceeding. Increasing interest is being shown in the matter of regulating private operators of motor vehicles.

> "A number of states, following the leadership of Texas, have already sought to regulate the private operator as a 'carrier,' and a number of bills have been prepared for early introduction in other states that would extend full regulatory control over these private operations... The trend of the moment is definitely towards complete regulation of private transport."[12]

In the federal regulation of interstate carriers, the first year or so of operation of the Act found the Commission almost swamped with the details of passing upon applications for operating rights (mostly under the "grandfather" clause)[13] and in the technical work of obtaining and filing tariffs and schedules. Control over the issue of securities and mergers has enabled the Commission to supervise the inevitable consolidation taking place within the industry. More recently the Commission has been giving greater attention to rate cases. The general tendency has been to raise the level of truck rates, frequently by means of the power to prescribe minimum rates. Little has been done, however, to solve the basic rate questions involved in facilitating the performance by each type of transportation of the service for which it is best suited. "Rates," it is stated, "are being fixed without any clear understanding of actual costs of operations" and again "... rail tariffs are rapidly becoming a comparative yardstick for the making of motor carrier rates."[14]

Valuable groundwork has been laid by the Commission in prescribing a uniform system of accounts, requiring monthly, quarterly and annual financial and statistical reports and in issuing administrative rules covering such matters as safety, extension of credit and hours of service of employees.

In many respects there has been close co-operation between the federal and state authorities and the Commission has made extensive use of the joint boards to prepare its case reports. It has also recommended various regulatory measures to the state bodies. The result of this co-operation has been that some progress toward a national system of motor carrier regulatory law in which the state and national controls are complementary has been made.

As a result the motor carriers according to a statement by the Interstate Commerce Commission are subject to stricter regulation than are the railways:—

> "The Motor Carrier Act, 1935, was favoured by the organizations of both the truck and the bus industries, and since its passage our rate-making

[12] "Extent and Possibilities of Highway Regulation", by Dawes E. Brisbine and George M. Adams, *The Annals of the American Academy of Political and Social Science*, January, 1939, p. 235.

[13] *I.e.*, under the clause providing for the continuance of franchises granted prior to the passage of the Act.

[14] *Annals of the American Academy of Political and Social Science*, January, 1939, p. 240.

powers thereunder have been invoked much more often by the motor carriers themselves than by the shippers. Similarly the air carriers were urgent in their support of the Civil Aeronautics Act, 1938. These two acts provide for the motor carriers and the air carriers, respectively, a system of regulation which is, if anything, more comprehensive than that which has been provided for the railroads."[15]

Rail-Motor Co-ordination.—The term co-ordination, as here used, is meant to cover the combining of the two forms of transportation in the interest of better service or economy by having each concentrate on the task for which it is best fitted.

Immediately after the Supreme Court decision in 1925 which left interstate motor carriers practically unregulated, a few railroads began to enter the highway field. The typical attitude of most railroads toward the motor carriers for many years was, however, that they were interlopers who should be taxed off the roads. Despite this, the participation of railroads in the highway field expanded steadily up to the passage of the Motor Carrier Act.

One of the first steps toward the co-ordination of motor carriers with the railways was the gradual extension of motor haulage in local cartage service to and from railroad stations, formerly conducted at shippers' expense, either by railroad-owned vehicles, or by those of a subsidiary or local contractor. The gradual adoption of pick-up and delivery service as an integral part of the transportation service offered by the railroad at published rates culminated early in 1934 in the general adoption of free pick-up and delivery within certain limits.

More formal attempts at co-ordination are illustrated by the use which a number of railroads make of trucks and buses in substitution for railroad trains. This usually takes the form of motor haulage in lieu of local passenger and way-freight service to points served by branch lines on which it is desired to abandon or curtail service. A closely allied use of motor carriers is complementary to rail service. This consists of the concentration and distribution by motor of passengers and freight at and from important rail centres and the use of the motor carriers in line haul service to intermediate points. This makes it possible greatly to speed up train service between the important centres.

A few railroads also have attempted to develop the carriage of truck bodies on rail flat cars, thus combining the flexibility of the motor carrier for terminal operations with the economy of the railroad in line haul operations. While this scheme has some theoretical merits, it has not progressed far. It has not been used to any extent by railroads for hauling their own or a subsidiary's trucks; but rather for the carriage of competing trucks at tariff rates not too attractive to the latter.

The extent of railroad investment in motor carriers was estimated by the Interstate Commerce Commission in the spring of 1936. At that time the Class I railroads had a financial interest in 128 highway motor vehicle enterprises with an aggregate capitalization of over $43 million. By far the larger part of this investment was in passenger carriers.[16]

With the passage of the Motor Carrier Act the extension of railroad activities in the motor field practically ceased. While the railroads which had motor operations in existence when the Act was passed received operating rights under the "grandfather" clause, the same as other motor carriers, the acquisition of additional routes since then has been difficult. In general the Interstate Commerce Commission has taken the position that it is a legitimate operation for the railroads to use trucks and buses in substitution for rail service and in some cases as complementary to it. But the Commission has disapproved of any use of the motor carrier to compete with existing motor carriers or railroads where such competition was not in existence prior to passage of the Act. In the passenger field specifically, the Commission has not looked with favour upon the control of various Greyhound companies by the railroads, and in some cases has forced relinquishment of such control even after it had existed for some time.

Many railroads appeared to look upon passage of the Act as the beginning of the end of their troubles with the motor carriers and so ceased to explore the possibilities of further co-ordination. Nevertheless, in an effort to circumvent regulation under the Act, there has been an increasing tendency for railroads to create so-called forwarding companies, utilizing the facilities of both railroads and motor carriers. It was recently ordered, however, that these practices shall be changed to comply with the provisions laid down by the Interstate Commerce Commission.[17]

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[15] 52nd Annual Report of the Interstate Commerce Commission, 1938, p. 8.

[16] *Investment of Steam Railways in Highway Motor Vehicle Enterprises as of May 1, 1936*, I.C.C. Statement No. 3669.

[17] *Freight Forwarding Investigation*, 229 I.C.C. 201.

In conclusion, it may be said that the regulation of motor carriers in the United States has been brought to the point where conditions are somewhat stabilized; much of the former intensive competition has been curbed and moderated, to the advantage of the railroads and of the motor carriers themselves. There are prospects that further gradual improvement in this direction will take place. But the progress in regulation has done little to further extensive co-ordination between the railroads and the motor carriers. The Motor Carrier Act allows the carriers to institute, but does not give the Commission power to establish, through-routes and joint-rates for both passenger and freight traffic carried partly by rail and partly by motor. Such rates would apparently open the door to co-ordination in practice between independent and otherwise competing agencies of transportation. But in practice very little use has been made of this provision. Some joint-passenger tickets are sold, but the volume of traffic is very small and practically no use of joint freight rates has yet been made.

Chapter IV

THE BASIS FOR DOMINION-PROVINCIAL CO-OPERATION

Neither the British nor the United States experience in dealing with modern transportation problems can afford a clear guide for Canadian action. In Great Britain the problem is simplified by the existence of a single jurisdiction, though the competition between road and rail is intensified by the short distances which are involved. In the United States the power of the Federal Government to deal with interstate commerce gives it a degree of control over road traffic which has no counterpart in Canada where interprovincial traffic is a negligible proportion of the total traffic on the roads; while the United States government may almost be said to have bought a measure of control over road development by its system of conditional grants for road construction.

In Canada it may be reasonably assumed that, in future, the Dominion will be charged with the responsibility for seeing that the country has adequate railway services while the provinces will continue to build highways suitable for motor traffic in keeping with the public demand, which is likely to be insistent. The pressures for the construction of highways will be so powerful that it is likely that they will be checked only by the financial limitations of the provinces. Demands may be expected from motorists for highways comparable to those which they find in the United States. The desire to encourage motor tourists to travel in Canada will be a powerful inducement to this end.[1] Areas now served by rural roads will press for paved highways. Main highways will be constantly improved to take care of increasing passenger and freight traffic. A conscious intention to facilitate the movement of freight by motor vehicles for developmental and social reasons must now be counted one of the considerations affecting provincial highway construction.[2]

The problem before Canada is, therefore, how best to establish and maintain co-operation between the Dominion, in respect of its railway services, and the provinces, in respect of their road construction. Effective co-operation is of immense importance because, as has been shown in an earlier chapter, numerous important interests will be vitally affected by whatever course of action Canadian governments may take. To allow the railways to adjust themselves freely to the new situation would greatly benefit some classes of shippers and greatly harm others. To encourage the restriction of railway services in cases in which other forms of transportation can provide a more efficient service would throw railway employees out of work and (if branch lines were closed down) would prejudice some shippers for whom the other transportation services are not satisfactory. To subsidize the railways, directly or indirectly, in order to enable them to maintain the existing rate structure or existing services would impose a heavy burden on the taxpayer.

Possible Methods of Co-operation

Logically there are two methods whereby the new forms of transportation might be controlled and co-ordinated with the old: the provinces might adopt substantially uniform policies with respect to the control of highway carriers, and co-ordinate this control with Dominion control over railways; or jurisdiction to control highway carriers might be transferred to the Dominion.

The first method, that of uniform provincial regulation, was recommended by the Duff Commission in 1932.[3] In the Dominion-Provincial Conference of 1935 (December 9-13), in which all the provinces were represented by their governments, a number of resolutions were adopted in which the desirability of uniform regulation by the provinces was recognized in principle.[4] One of these resolutions reads: "That a licence should only be granted for the operation of vehicles for the transportation of passengers or freight for hire where it can be proved to the satisfaction of the licensing authorities that the service proposed is a public necessity

[1] In 1937 tourist expenditures in Ontario, according to official estimates by the provincial authorities, ran to $117,750,000. *Report of the Ontario Royal Commission on Transportation*, 1938, p. 1.

[2] "In many instances motor trucks have reduced the cost of freight transportation; have stimulated business, and by giving frequent and expeditious service to outlying areas have assisted in the decentralization of industry and the commendable building up of prosperous small communities distant from the large cities." *Ibid*, p. 1.

[3] *Report of the Royal Commission on Railways and Transportation in Canada*, 1931-32, p. 105.

[4] *Record of Proceedings*, p. 31.

and convenience." There is much to suggest that there is a common recognition by the provinces of the need for control both of rates and services and general agreement as to the form the control should take. A questionnaire was submitted on behalf of the Commission to the provinces and from the answers received it appears that there is developing in each province systems of control, which impose rates, require adherence by the trucking and bus companies to schedules of pay and hours of labour for employees, and limit by licences and other means the number of vehicles engaged in transportation to what are considered to be the necessities of the area served. There is much to suggest that there is in existence a basis upon which a Dominion-wide system of regulation might be built.[5]

Yet it must be recognized that regulation of one form of transport—highway carriers—by one authority (the province), and of other forms of transport by the other authority (the Dominion) offers little hope of preventing duplication of carrier facilities as between highways and railways, or of protecting the railways from undue or unfair competition by highway carriers. The fact remains that the interests of the Dominion Government as the trustees of the national interest in railway transportation, and of provincial governments as the trustees of the provincial interest in highway investment, are to some extent competitive, and there is no assurance that the regulatory authorities of the Dominion and the provinces will co-operate or respect each other's interests.

The alternative is a common regulatory authority which can take under its purview all forms of public carrier service, including that of highways. It would not, however, seem essential that all highway transportation should come under this common authority. It would be impossible for a single authority to regulate private vehicles, throughout Canada, nor would it seem essential for a central authority to regulate all aspects of highway carrier service. It would seem sufficient if the common authority over transportation had jurisdiction over motor carriers merely to the extent of granting franchises to operate, and of regulating the service performed for the shipper and the rates charged. Such jurisdiction need not be as extensive as that at present over Dominion railways. It need not extend to such matters as safety appliances; wages, hours and efficiency of operators; speeds, loads, etc. Such matters would be better left to the provinces in view of the necessity for their regulation and control of privately-owned motor vehicles. If this alternative were adopted it would involve the transfer of some jurisdiction to the Dominion.

If our recommendation elsewhere providing for a method of delegation of legislative power by the Dominion to a province, or vice versa, becomes effective, it would be legally possible for the provinces, individually or collectively, to delegate the necessary authority to regulate motor carriers to the Dominion which could then exercise this authority through the Board of Transport Commissioners.

Another method for reaching the same result would be to amend the British North America Act so as to confer on the Dominion concurrent jurisdiction over motor carriers either restricted to the right to grant franchises and regulate rates and services, or unrestricted. This would be similar to the jurisdiction now exercised over agriculture and immigration under section 95 of the British North America Act. By such a device, provincial regulation would be effective until superseded by Dominion legislation. Moreover, the Dominion would scarcely in practice occupy the whole field of regulation, even if it had the power, but legislation could be adopted to meet different needs in different areas, or as experience warranted.

A third possible means of achieving a measure of unified control should also be noted. It is possible that the Dominion could by reference declare designated highways works for the general advantage of Canada, or of two or more provinces, as it did in the case of most railways and grain elevators. It could then use existing machinery (the Board of Transport Commissioners) to regulate motor carriers to a much wider extent than we have suggested above as desirable. But the political repercussions likely to follow the exercise of the declaratory power

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[5] All the provinces, except Quebec, replied to the questionnaire and the answers suggest strongly that the statutory means to regulate and control motor transportation are available now. For example, all the provinces have a special motor act. In seven of the provinces covered by the answers to the questionnaire all public carriers require special permits (Prince Edward Island is the exception). The outline of regulation is visible in the discretionary power given to licensing authorities. In New Brunswick the licensing authority is to have regard for the "effect on other kinds of transportation". In Manitoba, "public convenience and necessity" must be considered. In British Columbia regard must be had for routes already served, for necessity of the proposed service, for the public interest, and so on. Quebec has corresponding provisions with ample machinery for control. There are, likewise, signs of regulation to maintain specific rate schedules and the trend in this direction will become more marked if the recommendations of the Chevrier Commission in Ontario are implemented. This Commission has recommended the creation of an Ontario Transport Board with power over highway traffic similar to that exercised over other kinds of transport by the Dominion Transport Commission. It is not suggested that the provinces hitherto have consciously regulated highway traffic in the sense that railway traffic is regulated. But the trend of provincial legislation and administration is in that direction and may gain momentum as the transportation problem comes to be more clearly appreciated.

in this way make its use highly undesirable except after agreement with the province, or provinces, concerned.

Taxation of Motor Carriers.—One of the possible methods of regulating competition (or of establishing fair competitive conditions) between railways and motor carriers consists in taxation. A uniform policy in the various provinces and co-operation between the Dominion and the provinces are important if taxation is to be used for regulatory purposes, as an examination of possible policies will show.

To-day it is probable that no province is taxing motor carriers or private trucks the full share of the cost of their operation to the province. It should be noted that truck traffic requires much heavier road construction and causes greater wear and tear on the roads than private motor cars. Yet all provinces by means of a flat-rate gasoline tax compel private motor car owners in effect to subsidize buses and trucks. The taxation which it is appropriate that each province should impose on motor carriers by way of licence fees might be worked out by a research body on the basis of engineering tests of the cost of wear and tear on roads by various types of vehicle. If the provinces agreed to impose this taxation the effect would be to protect railways (as they should be protected) from unfair competition by truck traffic. Tax rates on trucks and buses more nearly equal to the cost to the province would probably increase provincial revenues substantially. They would at the same time increase trucking costs and thereby improve the competitive position of the railways. Combined with heavier taxation on truck operation should go adequate policing to ensure observance of regulations for loading, speeds, safety appliances, and efficiency of operators of trucks, and this would also tend to increase truck operating costs. These matters lie almost wholly within provincial jurisdiction, though it is possible that the Dominion might exercise considerable influence on the provinces by establishing effective regulation over motor carriers and private trucks entering into interprovincial or foreign trade.

Control of New Investment.—There is also the important problem of controlling new investment in transportation in order to prevent over-investment and duplication such as have occurred in the case of railways. New capital investment in transportation is likely to occur primarily in highway, air and water transport, but further railway developments may occur, especially in the opening up of new areas. In view of the fact that the Dominion already has jurisdiction over all but a few railways and in view of the enormous Dominion investment in railways and of its proposed assumption of provincial debt incurred for railway construction, the Commission recommends that the Dominion should have exclusive jurisdiction over all railways[6] and that no further railways should be chartered except by the Parliament of Canada. Subsequent proposals will indicate that Parliament would have the benefit of advice by a competent and disinterested technical body.

New investment in highways is, however, much more difficult to control. As we have pointed out earlier, the pressure for new or improved highways is likely to be continuous, and provincial governments are likely to be compelled by public opinion to improve and increase highway facilities. One obvious limit is, of course, the funds available, but our financial proposals elsewhere will, if carried out, enable some provinces to expand their highways more easily than they can at present. The practical problem is whether or not the Dominion should attempt to influence the road construction of the provinces either by " buying control " through conditional subsidies as the United States has done or by attaching conditions if it has occasion to encourage highway construction as part of a program designed to stimulate employment. A healthier and in the long run more potent means of influence seems to the Commission to lie in encouraging the use of systematic research and far-sighted planning which would aim at co-ordinating all forms of transportation service in a comprehensive national system.

Planning and Research.—This conclusion points to the necessity of continuous and comprehensive planning of the whole field of transportation. United States experience, as has been indicated, strongly supports the case for planning and research. Of course, planning of transportation is not a new venture in Canada. Indeed, all federal or provincial aid to railways, and all provincial highway construction are ventures in planning. But in the past, planning of transportation has been piecemeal in character and has been concerned with only one or a few aspects of the problem. What is needed to-day is planning taking account of all forms of transportation, continuous, not intermittent, and concerned with the co-ordination of existing services (especially of rail and road traffic) as well as with the expansion of these services.

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[6] With an exception of railways which are purely local in character, *e.g.*, street railways.

The Dominion, as the government with the biggest investment in transportation and the government alone able to consider the whole field as a single problem, should take the lead in establishing a planning organization, while the provinces should co-operate by availing themselves of its services. It is recommended that a planning board either responsible to the Minister of Transport or independent of the Government should be set up. It should be composed mainly of experts, including both engineers and economists. If the provinces, as well as the Dominion, made use of its services it might develop into a body which would co-ordinate on a voluntary basis the future highway, railway, waterway and air programs in Canada, as well as lending technical assistance and making investigations when requested to do so. If Plan I were adopted, this Board might be called on for a report by the Finance Commission on the merits of transportation projects to be financed by borrowing through the agency of that Commission. It is also suggested that efforts should be made to enlist the co-operation of the provinces in planning transportation and co-ordinating existing services, especially road and rail traffic, and that this might be done by establishing joint planning boards on which the national planning body and provincial highway departments or highway carrier control boards might be represented.[7]

A further aspect of planning might be for the Dominion to give consideration to the desirability of a complete review of the railway freight rate structure in the light of conditions as changed by motor truck competition and that the powers of the Board of Transport Commissioners should be extended accordingly.

The systematic and planned co-operation which might result from the activities of the proposed consultative bodies could achieve purposes of high public value. Unnecessary duplication of investment in transportation facilities and equipment could be guarded against, especially in new regions —mining areas, for example—where the service best fitted to the needs of the locality could be agreed upon and supplied. Arrangements providing for all the year round services by trucks and buses, combined with effective rate-control would permit the abandonment without resulting public inconvenience of certain short railway branch lines, whose earning power has been permanently destroyed. In some cases services on branch lines might be substantially reduced, in others rail services might be provided only during seasons when the highways were impassable. Under a policy of co-ordinating all forms of transportation, in order that the best service possible may be given to districts at minimum maintenance charges and investment cost, Dominion assistance might well be given in the building of highways where those serve as the sole agency of transportation under an agreed scheme. Requests for recommendation for Dominion assistance for provincial highway construction were made to the Commission[8] but programs of this character on any considerable scale should wait upon the adoption of some kind of joint transportation policies.

Summary.—In its discussion of rail and road transportation the Commission has confined itself to pointing out the immense potential dangers of waste and overlapping in the field of transportation, calling attention to the complexity of the problem and the multiplicity and importance of the legitimate interests affected, citing the experience of Great Britain and the United States with modern transportation problems and drawing what seemed to be the obvious conclusion for Canada, namely that there must be intimate and cordial co-operation between the governments—federal and provincial—which divide the jurisdiction over transportation problems. The precise form which this co-operation should take must depend on the lines on which agreement can be reached, but an essential condition for its success is that there should be available not merely expert advice in crises or emergencies but continuous expert planning which can extend to all the inter-related branches of this peculiarly intricate problem. Throughout the discussion the Commission has endeavoured to give first place to the interests of the public, whether as shippers, or consumers, or as heavily burdened taxpayers, and to assume that the Dominion and provincial governments will feel bound, in the long run, to treat the general interest as paramount.

[7] The Duff Commission recommended a similar method, p. 56: "The federal and provincial governments in co-operation should, however, examine this question of the regulation and taxation of road motor vehicles with a view to equalizing the conditions under which road and rail transport is carried on, and to securing uniformity throughout the Dominion. A joint inquiry in which both federal and provincial governments were represented should enable a measure of agreement to be reached upon the general principles which should govern the regulation and taxation of motor vehicles using the public highways. The administration and adaptation from time to time of the agreed principles of road transport might be left to a consultative committee consisting of representatives of the various provincial governments and of the federal government."

[8] The Government of New Brunswick in its brief, p. 46: "In view of the fact that the Province of New Brunswick has provided highways of such a nature as to be necessary in time of peace and for the protection of the nation in time of War and has incurred a relatively large amount of public indebtedness in their construction, it seems only fair that the Dominion should assume part of this burden. We trust that the Commission may be able to recommend to the government of Canada that some concession be made to the Province in respect of highway construction."

SECTION E

MISCELLANEOUS SUBMISSIONS TO THE COMMISSION

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MISCELLANEOUS SUBMISSIONS TO THE COMMISSION

In the course of the public hearings of the Commission many submissions were made on matters quite beyond its terms of reference. Some of these concerned matters of policy clearly within the competence of the Dominion;[1] others concerned matters within the competence of the province.[2] On several occasions it was explained that by our terms of reference we were not concerned with public policy as such, but rather with Dominion-provincial relations, and that however strongly we might sympathize with submissions on matters beyond our terms of reference we could not make recommendations concerning them.[3] But we think that it is expedient to mention certain of the submissions although our instructions debar us from discussing their merits.

Two briefs submitted to us in the Province of Quebec contended that the women of that Province should be allowed to vote in provincial elections.[4] This is a question which lies entirely within the competence of the Legislature of the Province of Quebec.

Another contention, also made in Quebec, was that the French-speaking population in New Brunswick should have representation in the New Brunswick Legislature commensurate with, or proportional to, its numerical importance in that Province.[5] This, too, is a question which is within the exclusive competence of the legislature of the province concerned.

A third contention concerns the position of the French language in provinces in which there is a substantial French-speaking minority.[6] There are three aspects to this contention. The first concerns primary and secondary education, the second the use of French in the legislature and courts of the province and in governmental publications, the third the use of French in communications with the Federal Government or in business with the employees of that government. The general argument in the briefs was that section 133 of the British North America Act affirms and consecrates the bilingual character of the Dominion, and that the intent of this section has been reproduced in the Manitoba Act of 1870[7] and in the North-West Territories Act of 1877.[8] All the briefs and submissions on this question claim that the British North America Act simply confirmed natural and historic rights, and they quote to this effect capitulations, treaties, statutes and speeches by many of the Fathers of Confederation.[9] These briefs contend that no narrow interpretation should be given to section 133, but that it should be read in the wide sense which it is alleged that the Fathers of Confederation, to judge by their words, intended that it should convey.[10] The particular complaints are: that French is not an official language outside of the Province of Quebec except in the field of the Federal Government and in federal courts; that French-Canadians and Acadians do not have a share in the civil service of Canada commensurate with their numbers; that many of the federal civil servants with whom the French-speaking part of the population must deal do not understand French, still less speak or write it; that in certain parts of the country, outside of Quebec, there are no programs in French over the Canadian Broadcasting Corporation's network; that in the schools, outside of Quebec, there is practically no instruction conducted in French, even though English could be better taught to French-speaking children through French.[11] It is contended that it is one of the natural rights of a father to have his children educated in the language of the parents. French-

[1] *E.g.* Ex. 262, Brief of Alberta Co-operative Sugar Beet Growers' Ass'n which urged among other things special freight rates for the assistance of western sugar beet growers.

[2] *E.g.* Ex. 29, Brief of Catholic Minority of Manitoba.

[3] *E.g.* Ev. pp. 1232-33.

[4] Ex. 345 La Ligue des droits de la femme, and Ex. 349, Alliance canadienne pour le vote des femmes de Québec.

[5] Ex. 352, Mémoire des Acadiens et des Canadiens-français des provinces Maritimes.

[6] Ex. 351, Comité permanent des Congrès de la langue française; Ex. 352, Les Acadiens et des Canadiens-français des provinces Maritimes; Ex. 353 Les Canadiens-français du Manitoba; Ex. 354, Les Canadiens-français de la Saskatchewan; Ex. 355, Les Canadiens-français de l'Alberta; Ex. 29, Catholic Minority of Manitoba; Ex. 344, La Société Saint-Jean-Baptiste de Montréal, which was endorsed and approved by La Société Saint-Jean-Baptiste des Trois-Rivières, L'Association générale des étudiants de l'Université de Montréal, Les Chevaliers de Carillon, Association Canado-Américaine, Les Patriotes de Rosemont, Association des hôteliers de la campagne de la province de Québec, L'Union des vétérans canadiens. Opposition to the views set out in these briefs was expressed in Ex. 395, Brief of Grand Orange Lodge of Ont. West.

[7] Section 23.

[8] Section 11.

[9] An extended discussion is to be found in Ex. 344. La Société Saint-Jean-Baptiste de Montréal.

[10] For a discussion of the difficulty of interpreting the B.N.A. Act in accordance with the intentions of the Fathers of Confederation, see Book I, chapter entitled "The Nature of Confederation".

[11] This argument is developed at length in Ex. 355, Brief of Les Canadiens-français de l'Alberta.

Canadians and Acadians refuse to have their status compared with that of immigrant minorities, and resent such a comparison, for they were the discoverers and first settlers of the country and claim that anywhere in Canada they are in their motherland. No one, we think, will deny the importance of the part played by Canadians of French origin in exploring, pioneering and settling Canada. Nor will anyone, we think, dispute the desirability of supplementing English and French culture and vice versa whenever it is practicable to do so. In the field of secondary and higher education particularly there is little danger of the cultural value of either of the two great languages of Canada being underrated in provinces in which the other is the language of the majority. We may call attention to a brief presented to this Commission by the Youth Council of Greater Vancouver[12] in which it was suggested that every normal boy and girl in Canada should learn both languages. Considerations of sentiment reinforce this suggestion that the language of each of the two races which have pioneered the North American continent should be part of the cultural heritage of both.

But the education of the young is, as we emphasize elsewhere,[13] one of those cultural matters over which each province enjoys under the British North America Act almost exclusive control. In the primary education of children likely to leave school at a very early age the question of language instruction presents peculiar difficulties. Our contribution toward meeting them, while indirect, is not unimportant. We have endeavoured to frame recommendations which, if implemented, would place every province in a position in which its treatment of primary education and of the school-leaving age need not be dominated by the considerations of rigid and almost ruthless economy which have in some instances undermined the basis of our educational system. In the same way the use of both languages in public business is a matter in which, subject of course to existing constitutional provisions, the legislature of the province concerned has exclusive jurisdiction. And the federal policy in this matter must, subject to the same limitations, be determined by the Parliament of Canada. Thus, while we sympathize with the persistence of the French Canadians and Acadians in holding to their language and their culture, and while we are far from wishing to minimize the importance of this question, we see in the order in council which defines our duties no justification for undertaking a detailed study of the question or for making recommendations in connection with it.

A fourth contention, which has received widespread support throughout Canada, is that constitutional safeguards should be provided to protect the fundamental political rights and liberties of citizens of Canada against any possible infringement by provincial legislation.[14] There are many ways in which such protection might have been given. A "Bill of Rights" might have been added to the British North America Act, so worded as to define the rights to be protected and to invalidate any legislation purporting to infringe them. But the difficulty of defining rights in the constitution, of enforcing their protection, and of preventing a "Bill of Rights" from being a barrier to social progress, is evident from the experience of the United States. Or, a second method might have been to vest in the Parliament of Canada an express power to define and protect these rights although some provinces would have probably objected to giving such powers to the Federal Parliament. This device would probably not have given to Parliament any wider powers that it now enjoys under other heads, but it would have operated to deprive provincial legislatures of power to infringe these rights. This device would, however, have involved the difficulty of defining precisely the rights to be protected. A third device would have been to define authoritatively the circumstances under which the power of disallowance should be exercised by the Government of Canada, including under these circumstances the invasion of the rights and liberties of the citizens of Canada.

The Fathers of Confederation apparently preferred to trust to the good sense, fair-mindedness and traditional constitutionalism of the majorities in each part of the Dominion for the practical protection of such rights, rather than to attempt to set up any artificial control which would have implied anxieties and a lack of mutual confidence really contrary to the ideals with which they were then impressed.

Whether or not Canadian experience since Confederation shows that some artificial control is now required in that regard instead of the original trust and confidence, is a question with respect to which

[12] Ex. 205.
[13] See p. 50*ff*.

[14] See Ex. 17, Winnipeg Board of Trade; Ex. 33, Native Sons of Canada; Ex. 106, Trades and Labor Congress; Ex. 236, Edmonton Chamber of Commerce; Ex. 249, Calgary Board of Trade; Ex. 243, Alberta Youth Congress; Ex. 92, Canadian Life Insurance Officers Ass'n; Ex. 255, United Farmers of Alberta; Ex. 207, Native Sons of B.C.; Ex. 345, La Ligue des droits de la femme; Ex. 386, Canadian Legion; Ex. 401, Communist Party.

our practical conclusion must be much the same as that reached in our discussion of the submissions concerning the position of the French language.

A fifth matter to which considerable argument was addressed before the Commission was that of provision for amending the British North America Act without resort to the Imperial Parliament. The Province of Nova Scotia in particular stressed the need for devising procedure to this end,[15] and this contention was in general supported by the Provinces of Saskatchewan, Manitoba and British Columbia.[16] The Provinces of Nova Scotia and Saskatchewan contended that the consent of every province should not be required to an amendment, except in matters involving minority rights.[17] On the other hand, the Government of Quebec contended that the British North America Act embodied an agreement between the provinces, and as such was not amendable except by the consent of all provinces.[18] New Brunswick's submission was based in part on a similar contention.[x] Important as is this question from the point of view of Dominion-provincial relations, we feel that it falls outside our terms of reference which are confined in the main to the economic and financial aspects of the federal system. While some of our recommendations will if implemented involve specific amendment of the British North America Act, the procedure whereby these amendments should be brought about is a matter for the governments and legislatures concerned, rather than for this Commission.

Another constitutional matter submitted to us was that of the implementation of treaties. It was contended that a recent decision of the Judicial Committee of the Privy Council had the effect of limiting the power of the Dominion Parliament to implement treaties under section 132 of the British North America Act to those treaties negotiated by the King on the advice of his United Kingdom ministers, and that for treaties made by the King on the advice of his Canadian ministers, or conventions made by the Canadian Government, on any matter within the legislative jurisdiction of the provinces the Dominion Parliament had no power of implementation. It was contended that this made it extremely difficult, if not impossible, for Canada to perform its international obligations. It was further urged that the normal method of implementing treaties in a federal state was by the central rather than the state or provincial authorities.[19]

But, except for conventions of the International Labour Organization (which are intimately related to jurisdiction in labour legislation),[20] the Commission felt that the problem of implementing treaties, however important in Dominion-provincial relations or in relation to the status of Canada as a member of the family of nations, fell outside its terms of reference.

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[15] Brief of N.S., pp. 14-15; Ev. pp. 3870-71.

[16] Brief of Sask., pp. 8, 330; Brief of Man., Pt. II, p. 41, Ev. p. 71; Brief of B.C., p. 351.

[17] Ev. (Sask.), pp. 1221, 2277; Ev. (N.S.), pp. 3870-71.

[18] Ex. 341, Statement of the Province of Quebec, Ev. pp. 8132-35.

[x] Brief Pt. II, also Supplementary Brief. *Cf.* also views of Premier Hepburn of Ontario, Ev. p. 7400.

[19] For an extended discussion see Ex. 100, Brief of League of Nations Society. See also Ex. 106, Brief of Trades and Labor Congress; Ex. 386, Brief of Canadian Legion; Ex. 99, Brief of League for Social Reconstruction; Ex. 257, Brief of Alberta C.C.F. Clubs; Ex. 205, Brief of Greater Vancouver Youth Council; Ex. 209, Brief of Young Liberal Ass'n (B.C. Section); Ex. 28, Brief of Greater Winnipeg Youth Council; Brief of Man. Pt. II, pp. 26-27; Brief of Sask., p. 334.

[20] See p. 48.

SECTION F

SPECIAL CLAIMS

CHAPTER

I. Compensation for the Adverse Effects of Federal Policies.
II. Claim of British Columbia for Revision of Subsidies.
III. British Columbia's Claim as to Pacific Great Eastern Railway.
IV. Saskatchewan's Claim for Revision of the Natural Resources Award.
V. Claims Concerning Trade through Maritime Ports.
VI. Other New Brunswick Claims.
VII. Prince Edward Island Claims.

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SECTION F

SPECIAL CLAIMS

We have left for consideration in this section a number of claims presented by individual provinces which sought relief from the Dominion as a matter of right, rather than of law. In so far as their character is monetary these claims, whatever their strength, would have no practical importance if effect were given to our financial proposals and in such an event it would matter not at all whether we rejected these claims or allowed them. We believe that every province which has presented claims to us would be better off under our proposals than if effect were given to its claims and the proposals disregarded; and, under the method of calculation which we have followed, a province could not improve its financial position as a matter of right, without diminishing in equal degree the amount due to it on the basis of fiscal need until this amount reached zero. It could not, therefore, have both the benefit of the claims which we are about to consider and of the subsidies and debt relief which we have already recommended.

It is, perhaps, not altogether fortuitous that claims should have been presented on behalf of provinces for which we have recommended aid on other grounds. A claim is apt to be the reflection of a need, and the strength of the need is apt to reinforce the conviction that the claim is just. A province which has not prospered under Confederation, relatively to other provinces, is alert to find ways in which it appears to have been wronged, or in which federal policies appear to have operated to its disadvantage. And it is precisely to help provinces which have prospered less than others (on the ground that a proper conception of Confederation requires that their governments should be kept in a financial position to provide services on Canadian standards) that our main financial proposals are designed.

Yet it is important that these claims should be discussed. Some of them are not monetary in character but concern wide issues of policy. Even the monetary claims become of obvious significance only if our main proposals are not implemented. Like all claims of right, they are accompanied by a feeling of grievance—a feeling which is detrimental to national unity. We have, therefore, felt it our duty to give full consideration to every claim presented to us. In so doing we do not consider that we are going beyond our terms of reference. Although we were not appointed as a claims commission our mandate was extremely wide and a thorough consideration of the claims of the provinces was necessary if a picture were to be formed of their true financial position and of that of the Dominion, because an award of compensation on any of these claims would have altered the fiscal need of the province concerned. Moreover, a report which left numerous claims outstanding would be an unsatisfactory basis for the permanent adjustment of the financial relations between the Dominion and the provinces. Some of the claims are of so general a character as to raise issues of vital importance to the federal system. These are discussed in the chapter immediately following this. Other claims were more specialized. British Columbia in particular had been led to expect that this Commission would deal with its claim, which was of very long-standing, and we received special instructions from the Dominion Government to deal with it. It would have been out of the question to deny to other provinces a privilege accorded to one of them, and we, therefore, felt that we had been, by implication, expected to deal with other special claims as well.

Chapter I

COMPENSATION FOR THE ADVERSE EFFECTS OF FEDERAL POLICIES

In our public hearings the incidence of various federal policies on certain provinces and regions was discussed at length. In particular it was argued that the customs tariff bore with exceptional severity on the four Western Provinces and on the Maritime Provinces;[1] that the federal monetary policy after 1931 had seriously injured the Prairie region;[2] that the freight rate structure (indirectly the responsibility of the Dominion Parliament) discriminated against the Western Provinces and, especially, Alberta;[3] that the Maritime Provinces were not enjoying the benefits of the freight rates or of railway management promised at the time of the construction of the Intercolonial railway;[4] that the Dominion corporation income tax policy prejudiced industry in Ontario;[5] and that Dominion personal income and corporation income taxes injured the fiscal interests of the Governments of Ontario and British Columbia.[6] In part these complaints were no doubt due to misapprehension of the nature of the Commission's inquiry, and were based on the opinion that the Commission could make recommendations on federal policy. Some complaints were intended merely as an explanation of the unsatisfactory fiscal condition of the province concerned. But the inference of some of these representations was that the Dominion was accountable to the province for the adverse effects of federal policies suffered by the people of the province and the province was entitled either to compensatory policies to remedy the situation, or failing such policies, to damages payable to the provincial government.

On several occasions Chief Justice Rowell, the first Chairman of the Commission, stated clearly that the Commission was not concerned with any federal policy as such, and that it could only take account of any federal policy if it could be shown that that policy had prejudiced the financial position of the province.[7] On reconsideration of the matter we think that this is the proper position for us to take. Our general financial recommendations, which provide for federal assistance to a province in relation to its fiscal need, indirectly, by assessing the taxable capacity of the people of the province, take account of the incidence of all federal policies, and provide for adjustments which will continue to take account of effects of federal policies in the future. If our recommendations in this respect are adopted, claims for compensation to a province for adverse effects of federal policies will lose much of their force. If these recommendations are not implemented it is probable that such claims will recur with increasing frequency in Dominion-provincial relations. For this reason, and because claims of this nature raise fundamental issues about the nature of the Canadian federal system, we think that the whole question of the accountability of the Dominion to the provinces for federal policies demands careful examination here.

In all states, whether unitary or federal, national policies are largely the result of compromise between conflicting views and interests. The benefits of policy rarely, if ever, are distributed evenly over the whole nation. Most, if not all, policies benefit some individuals or groups more than others, and very often some areas or regions more than others. Even within a unitary state policies which prejudice interests of groups or regions may lead to serious political difficulties. But we know of no state which, except in instances where private property is actually appropriated for public purposes, follows the practice of paying damages directly to groups or regions or communities or individuals which suffer adversely from national policies. Compensatory policies are, indeed, often adopted to assist

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[1] Ex. 236, Brief of Edmonton Chamber of Commerce, p. 27; Ex. 172, Brief of B.C., Pt. VI; Ex. 4, Brief of Man., Pt. IV; Ex. 357, Brief of N.B., pp. 46-51; Ex. 144, Brief of N.S., pp. 80-94; Ex. 161, Brief of P.E.I., p. 10; Ex. 34, Brief of Sask., pp. 223-232; Exs. 421, 424, 427 (Ev. pp. 10,277-702) supp. statements of Hon. John Bracken, Dr. Jacob Viner and Hon. S. Garson on behalf of Manitoba.

[2] Brief of Man., Pt. III; Brief of Sask., pp. 233-51; Brief of Edmonton Chamber of Commerce, pp. 40*ff*; Ex. 423 (Ev. pp. 10,375-502) supp. statement of Dr. A. H. Hansen on behalf of Manitoba.

[3] Brief of Edmonton Chamber of Commerce, pp. 28-35; Brief of Sask., pp. 203-23; Ex. 172, Brief of B.C., pp. 297*ff*.

[4] Ex. 366, Brief of Transportation Commission of the Maritime Board of Trade. See discussion in Chapter "Claims Concerning Trade Through Maritime Ports."

[5] Brief of Ont., Pt. II, p. 62.

[6] Brief of Ont., Pt. II, pp. 50-55; Brief of B.C., p. 24.

[7] *E.g.*, Ev. pp. 1232-33; p. 4459.

groups or regions adversely affected by other policies. In the modern world where economic nationalism is predominant this practice is characteristic of most states. It has frequently been followed by Canada. For example, the Maritime Freight Rates Act of 1927, in order to compensate the Maritime Provinces for the additional mileage of the Intercolonial railway due to military considerations, provides for a differential of twenty per cent on freight rates on freight originating in, or going to, these provinces. Again, fixed prices for wheat have been supported on occasion on the ground that they compensated the Western Provinces for their burdens under the tariff. But compensatory policies on behalf of groups or regions are quite a different matter from the payment of damages for the adverse effects of policy. Again, it is one thing for a state to provide compensatory policies on the grounds of expediency, but it is quite another matter to hold that it is under obligation to do so.

The question arises whether the situation is different in a federal state from that in a unitary state, and whether the provinces (or states) in a federal union are entitled either to compensatory policies or monetary damages for losses occasioned by their people from federal policies. The claim that the provinces are so entitled appears to rest on the assumption that the Dominion is the agent of the provinces, responsible to them for the effects of federal policy, rather than directly to the people of Canada. But the Dominion cannot in any sense be deemed the agent of the provinces. The provinces did not create the Dominion nor delegate to it their powers. It is true that prior to 1867 the representatives of three colonies (Nova Scotia, New Brunswick and Canada) met together and drew up terms of union which formed the basis of the British North America Act. But the colonies were not sovereign states, and could not of themselves create the new entity, the Dominion of Canada. The Imperial Parliament alone could do this, and it is significant that the act of creation destroyed one of the colonies whose representatives had participated in drawing up the basis of union and created out of it the two provinces of Ontario and Quebec. Nor have the courts ever held that the powers of the Parliament of Canada have been delegated to it, either by the provinces or by the Imperial Parliament. Within its own field of jurisdiction it is as sovereign as the Imperial Parliament itself or as are the various provincial legislatures within their proper field.

The essential difference between a federal and a unitary state is the division of power in a federation between central and local units of government, and hence a division of responsibility. Within its field of jurisdiction each unit is autonomous. But the central authority and the local authority are not two independent states, rather they act for the same people in different capacities. It cannot be said that the Parliament of Canada when it legislates within its field of power is legislating for the people of Canada exclusive of the people of Saskatchewan or of Manitoba or of any other province, even if all the representatives of the people of the province dissent. Rather, it acts for the whole nation, and for the exercise of its discretion it is responsible to the people of all Canada, including the people of every province. It may formulate policies which benefit more the people of some provinces than of others, or injure the people of some provinces while benefiting those of others, or restrict economic opportunities of the people of some provinces while enlarging economic opportunities of the people of other provinces, but this is entirely within the field of discretion entrusted to it by the British North America Act. And for such actions only the people who elected the Parliament of Canada, namely the people of all Canada, can hold it to account.

If the logic of constitutional theory is not sufficient to negative the assumption that the Dominion is accountable to the provinces for federal policies, the practical difficulties of making this assumption a working principle of Dominion-provincial relations are nevertheless insurmountable. The survey of the economic and financial history of Canada given in Book I of this Report indicates the complexity and inter-relation of federal policies. Transportation policies and the tariff have acted and reacted upon one another since Confederation, the effects of one cannot be completely isolated from the effects of the other. Monetary policy after 1931 was intimately related to earlier developmental policies which had laid Canada under a heavy burden of external debt, and its effects cannot be considered in isolation from the effects of these earlier policies, or indeed apart from the effects of tariff and transportation policies. Nor can the effects of taxation under the customs tariff be considered without reference to the effects of the sales tax or other federal taxes. Indeed, federal policy, though unplanned as a whole, has developed into a highly complex web, no thread of which can be completely disentangled from the others. The incidence of any one policy

cannot be properly measured alone for the reason that it is affected by the incidence of every other policy. A province or region, for example, which suffers from some items in the tariff may benefit from others, or even if it suffers from the tariff as a whole, it may benefit from other policies such as fixed prices, or special freight rates, or developmental policies at federal expense, or external trade policies. Any fair system of accounting would have to include gains and losses from all federal policies not only at any given time, but for the whole period since federation. And even if the tangled skein of federal policy over seventy years could be unravelled, losses and gains could, in many cases, only be estimated by examining the alternative policies which might have been followed. No estimate based on so many "might-have-beens" of Canadian history could be reliable. There is, indeed, no possibility that a province could draw up a reasonably accurate account of losses and gains from membership in federation.[8]

It is, of course, of the essence of democracy that any individual, or group, or the people of any part of Canada, is fully entitled to seek to change public policy through political means. Those who seek to change public policy are fully entitled to make use of all legitimate means, including existing organizations, or the formation of new political organizations, to effect the desired change. It is inevitable that the people of a province should on occasion be assisted or represented by the government of their province in seeking to effect a change in federal policy. It is one thing for a provincial government in the interests of its people to seek to effect a change in federal policy, but it is quite another thing to hold that the Dominion is liable in damages to the provincial government for the effects of federal policy upon the people of the province. It is equally unsound to hold that a province is entitled as of right to remedial policies to make good adverse effects of other federal policies on its economy. It would, indeed, be quite as logical to hold that the province is liable in damages to the Dominion for the adverse effects of provincial policy on the interests of the nation, or that it should adopt remedial policies to compensate the Dominion for losses from other provincial policies.

In thus holding that the Dominion in the exercise of its functions is not responsible to the provinces we do not mean to suggest that it should, in developing or continuing a federal policy, disregard the interests of a provincial government or of the people of a province. Even in a unitary state it is the part of wisdom for a government to have due regard for discontent of classes or regions arising from the incidence of national policy. It is the more so in a federal state where the people have two fields in which to exercise their control of government. A sense of their inability to influence federal policy directly may easily divert the electors to use the provincial field to organize their discontent with federal policy, and thus a policy, constitutionally within the discretion of the federal Parliament and presumably designed in the national interest, may become the occasion for serious friction between the Dominion and a province, and may thus tend to weaken the bonds of national unity rather than to strengthen them. The necessity of carefully estimating the consequences, both economic and political, of federal policy is an obvious lesson to be drawn from the survey of economic and financial developments since 1867 contained in Book I of this Report.

Another conclusion to be drawn from Book I of this Report is that federal policies considered as a whole have tended to benefit certain regions more than others. These tendencies have undoubtedly affected the financial position of every province, and of some provinces more than others.[9] It is theoretically possible that federal policy might so weaken the financial position of a province as to make it difficult, if not impossible, for it to perform its functions on standards reasonably comparable with those of other provinces. In such an event we think that it is in the national interest for the Dominion to come to the assistance of the province thus adversely affected. The constitution lays upon the province responsibilities in the field of government which, if they cannot be fulfilled by the province, remain unfulfilled, since the Dominion

[8] Dr. Carrothers, economic adviser for B.C., in reply to a question whether it was possible for a province to set up a balance sheet of losses and gains as against the Dominion, replied (Ev. p. 5204): "I think the practical difficulties involved would be almost insurmountable. The difficulty would be to segregate what is purely a provincial matter from what is a matter for the province as part of the Dominion." See also discussion of this point in the Ont. hearings, Ev. pp. 7755-58.

[9] In fairness to certain provinces it should be stated that this was the ground on which, either in original or later statements to the Commission, they criticized federal policies. The Hon. John Bracken, Premier of Manitoba, in final hearings before the Commission stated (Ev. p. 10,340): "In connection with the discussion on monetary policy let me add that we have no thought of presenting a bill for damages to the Dominion for monetary losses sustained by the western provinces in consequence of federal monetary policy. We present the monetary brief only as one of the many factors which account for the economic stress to which the western provinces have been subjected, and which therefore serves to explain in part why these provinces now stand in need of a readjustment of their fiscal relations to the Dominion." For similar statement by Hon. A. L. Macdonald, Premier of N.S., see Ev. pp. 3858-59 and 4006. For further discussion see Ev. pp. 7750-53.

cannot undertake provincial functions. Moreover, the inability of a province to provide services on standards reasonably comparable with those of other provinces is bound to give rise to discontent and so to impair national unity. It is, therefore, in the national interest that the province should be able to carry the responsibilities of government entrusted to it by the British North America Act and amendments. But it cannot be held that hitherto the Dominion has been under any recognized constitutional obligation to enable a province to perform its functions.

But even when federal policy tends to impoverish a provincial area, its effect on provincial finance is at best remote and indirect, and only small in comparison to the total effect on the people of the province. The provincial government is rendered poorer, if at all, only to the extent that the capacity of its people to pay provincial (including municipal) taxes is impaired. A province and its municipalities normally take only a small proportion of the income of their people in taxation. A reduction in the total income of the people of a province may make more difficult, but not necessarily impossible, the collection of normal tax revenues by the province and its municipalities. Yet, even if the reduction in the income of the people of a province should be so great that the collection of normal tax revenues became impossible, the injury to the fiscal position of the province would be only the loss in tax revenues plus possible additional expenditures due to such matters as relief, and not the loss in the total income of its people. The issue is not the liability of the Dominion to a province for the adverse effects of federal policy, but the ability of the province to perform its functions under the federal system. The measure of assistance which should be forthcoming from the Dominion is not, therefore, the net damages from federal policies, but the fiscal need of the province arising from any cause.

Admittedly, provincial fiscal need has not hitherto been expressly recognized as a principle of federal assistance to the provinces, but we think that it should be. Our recommendations for adjustment and emergency grants are based on this principle.[10] They aim to place every province in a financial position to perform the functions entrusted to it by the British North America Act (with the exception of relief of employables which we have recommended should be the direct responsibility of the Dominion). In particular they aim to make possible for every province social and educational services on Canadian standards, and developmental services on the standards set by the province in the "peak" years, 1928-31,—ends which, if achieved, should alleviate the adverse effects of federal policy on the people of any region or province. The method adopted is that of measuring provincial fiscal need, rather than the impractical method of assessing the adverse effects of federal policies.

[10] See Sect. B, Ch. V.

Chapter II

CLAIM OF BRITISH COLUMBIA FOR REVISION OF SUBSIDIES

For many years British Columbia has sought to have a Royal Commission appointed to consider its claim for additional subsidies to place it on equality with other provinces of Canada. After many requests, culminating in a brief filed in 1934,[1] a special interim payment of $750,000 was granted by the Dominion in December, 1934, for the fiscal year ending March 31, 1935,[2] and payments of the same amount have been provided by the Dominion each year thereafter in the annual estimates. The Government of the Province, however, continued to press for the appointment of a Royal Commission to investigate its claim so that such amounts as it might be found entitled to would be placed on a permanent rather than on a temporary basis. When the present Commission was appointed the Government of the Province "was assured that any statement of the Province's case for special consideration would be heard by this Royal Commission".[3] Instructions to hear such special claim were given to this Commission by the Dominion Government previous to the hearings in British Columbia and were confirmed by letter at a later date.[4] The Province accordingly presented its claim to this Commission.

The Province contended that "when it is suggested that modifications be made in the Dominion-provincial financial relations, a preliminary special readjustment would have to be made in the case of British Columbia in order to bring it into line with the other Provinces of Canada before a general readjustment, which would be fair and equitable to the Province of British Columbia, could be made."[5] It was also contended that the special subsidy of $750,000 was merely "an interim increase until such a time as the whole position of the Province in the Confederation could be examined and equitable financial arrangements determined".[6] In hearing this special claim the first Chairman of the Commission invited a full discussion, stating: "we must have all the facts before us to enable us to say whether, in our opinion, you are entitled to $750,000, or more, or less".[7]

History of Subsidy Relations with British Columbia

The history of subsidies granted by the Dominion to British Columbia is set forth in detail in the Province's brief[8] and in the special study on subsidies prepared for the Commission.[9] It is, therefore, unnecessary for present purposes to do more than outline the situation.

British Columbia entered Confederation in 1871 under an Imperial Order in Council dated 16th May, 1871, passed pursuant to addresses from the Senate and House of Commons and from the Legislative Council of British Columbia setting forth the terms of union. In 1870 a delegation from British Columbia had gone to Ottawa to negotiate terms of union with instructions to ask an annual subsidy of $213,000, made up of a grant for government of $35,000, a subsidy of 80 cents per capita on an assumed population of 120,000, and a debt allowance based on the same assumed population at a rate of $22 per capita.[10] The actual population at the time was under 35,000, of whom about 25,000 were Indians, but it was contended that an assumed population of 120,000 was proper if consideration were given to the high per capita contributions by the people of British Columbia to the Dominion

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[1] Ex. 179, British Columbia's Claim for Readjustment of Terms of Union, 1934.

[2] Ex. 175, Letter, 19th Dec., 1934, Rt. Hon. R. B. Bennett, Prime Minister of Canada to Hon. T. D. Pattullo, Premier of B.C.

[3] Ex. 172, Brief of B.C., p. 22.

[4] Extract from letter, 22nd Nov., 1938, from Deputy Minister of Finance to Secretary of Commission: "I have your letter of November 16th referring to representations already made by the Province of British Columbia in respect of their special claim for subsidy, and indicating that Senator Farris, on behalf of the Province, may possibly be making further representations to the Commission on this matter during the present week.

"I am instructed by Mr. Dunning to advise you that the Dominion expects the Commission to deal with the special subsidy claim of British Columbia and to make a special recommendation in regard thereto." See also statement by Chairman, Ev. p. 4980.

[5] Ex. 172, Brief, p. 22.

[6] *Ibid.*

[7] Ev. p. 5235. See also Ev. pp. 5264, 5901, 5906, 5907.

[8] Ex. 172, Brief, pp. 4-9; 22-23.

[9] Wilfrid Eggleston and C. T. Kraft, *Dominion-Provincial Subsidies and Grants.* (Mimeographed).

[10] See J. A. Maxwell, *Federal Subsidies to the Provincial Governments in Canada*, pp. 38-39.

treasury in the form of customs duties. This argument was not pressed to its logical conclusion. There was no suggestion that, when the actual population had reached 120,000, a new fictitious population should be used as a basis in order to take account of the large per capita contributions to the federal treasury. The Dominion Government of the time was unwilling to accept an assumed population of 120,000 as a basis for subsidies, but agreed to a population basis of 60,000 for the calculation of the per capita subsidy of 80 cents and a debt allowance of $27.77 per capita. In addition an annual grant of $100,000 was made which was declared to be in consideration of the conveyance by the Province of a strip of land along the proposed railway throughout its entire length in British Columbia, not to exceed twenty miles on each side of the said line. Subsequently, three and a half million acres of land in the Peace River District were transferred to the Dominion by the Province to make up for deficiencies in the original Railway Belt. The land in both areas was to be used to aid in the construction of the railway.[11] In view of the lengthy argument addressed to the Commission as to the true nature of this $100,000 grant, it will be necessary at a later stage to consider it in detail.

The terms of union providing, *inter alia,* for the subsidy as so amended were accepted by the delegation from British Columbia and were ratified by the Legislative Council of British Columbia, which presented an address to the Crown asking for the admission of British Columbia into the Union. The financial terms thus agreed upon provided an annual population subsidy of $48,000, a grant for government of $35,000, and a debt allowance of $1,666,200, which produced, after deduction of the amount of debt assumed by the Dominion, an annual interest payment of $31,000. These sums, together with the $100,000 railway land payment, produced an annual sum of $214,000 instead of the annual sum of $213,000 sought by the British Columbia delegation in 1870. The Province shared in the rearrangements of 1873 and 1884 arising from the absorption by the Dominion of the excess debt of Ontario and Quebec, and in the general readjustment of subsidies in 1907, when a special additional subsidy of $100,000 per year for ten years was also granted to British Columbia for special reasons discussed later.

No special readjustments of the subsidy to British Columbia, other than those noted, have been made, but, under the statutory provisions for subsidies, increases in population have resulted in larger subsidies from time to time. For the fiscal year 1936-37 subsidies totalling $874,561.46 were paid. This total is made up as follows:—

Interest on debt allowance	$ 29,151 06
Grant in support of government	190,000 00
Per capita subsidy	555,410 40
Railway land grant	100,000 00
	$874,561 46

In addition, the special interim payment of $750,000 was begun in 1934, making a total subsidy payment of $1,624,561.46.

Summary of the Case for Revision of Subsidies

As counsel for the Province stated, " for the last forty years there has been a continuous, consistent pressure from this Province that British Columbia was entitled to further consideration ".[12] In certain claims for readjustment of subsidies made by other provinces, in particular by the Maritime Provinces before the Duncan and White Commissions, the provincial submissions went beyond a claim as of right, and asked for an increased payment from the Dominion by reason of the difficult economic conditions of the people and of the acute fiscal need of the provincial governments. In the presentation of British Columbia's argument the plea of fiscal need was expressly and unequivocally rejected in the following terms:—

> " The position of this Province is not based on any plea of poverty. She does not plead lack of resources, the unkindness of nature or lack of income in her citizens."[13]

Consideration of the claim for readjustment of British Columbia's subsidy does not, therefore, involve an estimate of the fiscal need of the Province. We have merely to consider whether or not British Columbia has received equality of treatment in subsidies in comparison with the other provinces of Canada and, if not, whether British Columbia is entitled to complete equality of treatment. In such comparisons it is necessary to leave out of the account special payments by the Dominion to certain of the other provinces by reason of fiscal need of those provinces as, for example, the

[11] See Sec. 11 of terms of union, *British North America Act and Amendments*, 1867-1927, p. 81. See also Eggleston and Kraft. *op. cit.* Pt. II. Ch. IX.

[12] Ev. p. 4910. For details of these claims see Ex. 172, Brief of B.C., pp. 12-21; also Wilfrid Eggleston and C. T. Kraft, *Dominion-Provincial Subsidies and Grants* (Mimeographed). Elaborate briefs were presented to the Dominion in 1934 and 1935, see copies filed as Exs. 179 and 173.

[13] Ex. 180, Brief of Argument, p. 5.

special payments in recent years to Manitoba and Saskatchewan on the recommendations of the Bank of Canada.

The claims of the Province may be grouped under three heads: (1) the alleged high cost of government in British Columbia; (2) the high per capita contributions to the federal revenue; (3) inequality in the matter of per capita subsidies and debt allowances. In view of the importance given by the Province's argument to the nature of the transaction between the Dominion and the Province over the lands in the Railway Belt and Peace River Block it will be necessary to examine this question in connection with the last head of claim.

Claim Based on High Cost of Government

One head of claim for increased subsidies to British Columbia is the contention that the cost of provincial government is higher in comparison with that in other provinces by reason of the physical characteristics of the Province. It was said that, because of the mountainous terrain, the widely scattered population and the difficulties of communication, increased provincial expenditures were required, particularly in relation to highways and other public works, education, policing, and health services.[14] This claim must be distinguished from a somewhat similar claim that was also presented to the Commission[15] that because of the enormous increase in the cost of provincial government the subsidy has become a very much smaller part of provincial revenue than it was at the time of Confederation and is today inadequate. This latter argument applies, though in varying degrees, to all the provinces and concerns the relations between the Dominion and the provinces generally. In dealing with British Columbia's claim we have carefully avoided discussing questions raised in the British Columbia brief which related to Dominion-provincial financial relations in general. British Columbia's special claim, which we are now considering, depends upon conditions of geography and topography peculiar to that province. It is thus based on the very "unkindness of nature" which counsel for British Columbia stated that the Province did not wish to advance as a ground for assistance. But we are unwilling to dismiss thus summarily a claim which has been advanced by the Province in various representations over the past forty years.[16] In the hearings at Victoria no attempt was made to compare statistically the costs of government in British Columbia with those in other provinces, but the Province was invited by the Chairman to do so.[17] At the supplementary hearings of the Commission in Ottawa it was stated that, owing to the lack of comparative statistics, it had not been found practical to reduce the claim to definite figures. It was pointed out that the construction of roads was difficult and costly, and that the location of natural resources had the effect of scattering the population thereby increasing the cost of government services. In the absence of exact figures counsel for British Columbia suggested that this claim should be met by adding 5 cents per capita to the present population subsidy of 80 cents per capita.[18]

This is a very old claim of the Province which was recognized by the Dominion-Provincial Conference of 1907. This Conference recommended unanimously (British Columbia having withdrawn) a special subsidy of $100,000 per year for ten years to cover the claim.[19] Although the Province did not accept this as a final settlement of outstanding claims, it did receive the amount approved by the Conference.[20] We think that the considered judgment of all other provincial governments and the Dominion Government on the matter should not be lightly cast aside. The award of this special subsidy admits by inference that at the time the Province should have special assistance by reason of the high costs of government due to the unfavourable topographical nature of the Province and its then low population, and it assessed a sum which the Conference (except British Columbia) considered a fair amount. The Province now asks for a larger amount for past difficulties to be computed by altering the terms of union as from 1871 by assuming a population of 120,000 as from that date, and for increased allowances for the future. We shall discuss later the proposal to alter now the basis of union, but we think that in any case the special subsidy decided on by the Conference of 1907 should be considered a fair settlement of this claim at that date. The sole question remaining,

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[14] Ex. 180, Brief of Agreement, p. 10.

[15] *Ibid.*, pp. 7-10; Ev. pp. 4953-62.

[16] For summary of past arguments, see Ex. 172, Brief of B.C., pp. 13*ff*.

[17] Ev. pp. 4992; 5902.

[18] Ev. pp. 10,240-43.

[19] Canada, *Sessional Papers* (1906-7), No. 29a, p. 13: "That in view of the large area, geographical position and very exceptional physical features of the province of British Columbia, it is the opinion of this Conference that the said province should receive a reasonable additional allowance for the purposes of civil government, in excess of the provisions made in the Quebec Resolutions of 1902, and that such additional allowance should be to the extent of one hundred thousand dollars annually for ten years."

[20] Wilfrid Eggleston and C. T. Kraft, *Dominion-Provincial Subsidies and Grants*, p. 179 (Mimeographed.)

therefore, is whether British Columbia should receive now special consideration for the period since this grant lapsed and/or for the future.

The special subsidy of 1907 cannot be regarded as a conclusive precedent for a special subsidy today. Economic conditions in the Province have changed radically since 1907. The Province, although requested, submitted no sound proof of the claim that its present costs of government are unusually high as compared with those of other provinces. We sympathize with its inability to submit convincing evidence on the comparative costs of provincial government since the task of compiling such statistics is admittedly difficult. Our own researches do indicate that costs of government in British Columbia are high, but mere totals signify nothing. High costs may arise from one or more of several factors: inefficient administration; inherently high costs of certain services because of peculiar natural conditions; more or better governmental services than other provinces; a different distribution of functions as between the province and its municipalities than that of other provinces.

With regard to comparative efficiency of provincial administration, we have no reason to suspect inefficiency.

Certain services such as highways might reasonably be expected to be more costly than similar services in certain other provinces. Under this item the Province alleges that the distribution of its natural resources has meant abnormal mileage and abnormally high construction costs of highways. But we do not think that such costs can be charged against the Dominion as a whole. Such costs are properly chargeable against the cost of exploiting natural resources, and should be met by the Province out of the increased taxable capacity which the exploitation of these resources has beyond question created. It should be borne in mind that, at least since 1925, the public domain revenues of the Province have exceeded the public domain revenues of all the Prairie Provinces and the Maritime Provinces combined, while its returns from the corporation income tax (most of which are traceable to the exploitation of natural resources) during the same period have exceeded those of any other province. Moreover, even if certain of British Columbia's services are inherently more costly, certain other services may be inherently more costly for other provinces. We do not think that British Columbia is entitled to special assistance from the Dominion because of excessive costs of certain services when other provinces are not accorded the same privilege for their costly services. Under the present subsidy system we can find no principle which would entitle any province to such a privilege in the absence of real fiscal need. No such fiscal need has been shown or claimed by British Columbia.

It is apparent from our researches that the Province in such matters as highway construction, assistance for education and public health, bears a larger share of the cost in relation to its municipalities than do most other provinces.[21] This, however, is largely a matter of provincial policy and would appear to constitute no sound reason for special assistance to the Province. Further, it appears that, on the whole, the Province has been more generous in its public welfare and educational policies than most other provinces.[22] In this respect the Province is to be commended rather than criticized. Progressive policies of this sort, however, undoubtedly raise governmental costs. But, as we understand the claim of the Province, it did not ask, and we do not think it fairly could ask, for special assistance because it chooses to be more generous than certain other provinces.

In conclusion of this matter, it may be noted that despite generally high costs of government in the Province its people, at least during the past fifteen years, appear to have enjoyed a higher per capita income than the people of any other province except possibly Ontario.[23] We do not think, therefore, that any just claim can lie against the rest of the people of Canada for special assistance because of natural conditions, which, if they have made certain governmental costs higher, have also made possible higher rewards for human labour, over and above governmental costs, than obtain on the average in the rest of Canada.

Claim Based on Contributions to Federal Revenues

The claim for special treatment, on the basis that the Province has made a contribution greater than the average to Dominion revenues is one which we feel should not be recognized. This claim has been advanced in a number of the representations presented by British Columbia from time to time, but for reasons that are obvious no estimate of the amount of such claim and no

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[21] H. Carl Goldenberg, *Municipal Finance in Canada.* (Mimeographed.) Part IV.

[22] See generally Appendix 6—A. E. Grauer, *Public Assistance and Social Insurance.*

[23] See Appendix 4—*National Income;* or summary in Appendix 3—W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations.*

conclusive proof of its validity has been made. The calculation of comparative contributions of the people of different provinces to Dominion revenues presents almost insuperable obstacles. Even were an estimate possible, we do not feel that it would provide a basis for a claim for subsidy readjustment. In a federation such as Canada the federating units merge themselves for certain purposes in the entity which they create. The citizens of the colony of British Columbia became, after Confederation, citizens of Canada. The right to impose customs duties was exclusively enjoyed thereafter by the Dominion Parliament, and when an individual resident of Vancouver pays customs duties he does so as a citizen of Canada. Payment of these or other Dominion taxes is in no sense a payment by the province, and the provincial government is not entitled to any readjustment of its financial relations with the Dominion on the basis of any such payment.[24] We are fortified in this view by the admission of counsel for British Columbia that it is impracticable to attempt to set off Dominion expenditures in a province against Dominion collections from that province.[25]

Claims Based on Inequalities of Subsidies and Debt Allowance

(a) Nature of the Grant for Railway Lands

In the hearings at Victoria the nature of the special grant of $100,000 for lands in the so-called Railway Belt was discussed at length. It will be recalled that the delegation from British Columbia that came to Ottawa in 1870 to discuss terms of union was instructed to ask for a subsidy which was in part to be based on an assumed population of 120,000. The Dominion Government was unwilling to allow an assumed population of more than 60,000 but offered an additional annual payment of $100,000 in consideration of the transfer by the Province to the Dominion of a belt of land not to exceed twenty miles on each side of the proposed railway. This proposal was accepted and became part of the terms of union. In the result British Columbia entered Confederation with an annual subsidy of $214,000. Counsel for the Province admitted before this Commission that "British Columbia got in 1870 what it expected to get" although "it did not get it on the contention upon which it asked for it".[26] Shortly after 1871 the Dominion claimed that much of the land in the Railway Belt was unfit for agricultural purposes, and ultimately in 1884, after considerable controversy,[27] the Province transferred a block of 3,500,000 acres in the Peace River District which was accepted by the Dominion "in satisfaction of all claims for additional lands under the terms of Union".[28] The Dominion retained the Railway Belt and the Peace River Block until 1930, when, following the report of the Martin Commission, it reconveyed all lands remaining in its possession to the Province, amounting to 9,602,400 acres in the Railway Belt and 3,230,000 acres in the Peace River District. Notwithstanding the reconveyance of all remaining lands to the Province, the Dominion continued to pay annually the grant of $100,000 pursuant to an agreement between the Dominion and the Province.[29]

In the brief of British Columbia the land clause in the terms of union is referred to as "merely a device to give an excuse for the grant".[30] In the opening hearings at Victoria counsel for the Province supported this view[31] which was in line with the position of the Province before the Martin Commission when it argued that "as to the payment of $100,000 annually by the Government of Canada in consideration of lands conveyed, such payment was not in reality in return for lands conveyed, but was for the purpose of enabling the Government of the province to function properly and that the said payment should be so regarded."[32] On a later day in the hearings at Victoria, the stand of the Province on this point was completely reversed. The contention that the grant of $100,000 for the railway lands was a device was repudiated both by counsel and by the Premier of the Province. It was then contended that the payment was in fact what it purported to be, a payment for the lands; all statements to the contrary in the brief or in argument were withdrawn as having been made in error.[33] It was suggested that while the Dominion might not have been willing to buy these lands as an independent transaction, and while it was undoubtedly anxious to satisfy the financial claims of British Columbia, these facts were quite consistent with a bona fide purchase of these lands as part of a larger agreement.[34]

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[24] See discussion of this whole matter in preceding chapter, "Compensation for the Adverse Effects of Federal Policies."

[25] Ev. p. 4912. See also Ev. p. 524.

[26] Ev. p. 4916.

[27] See discussion in evidence, pp. 5875-83.

[28] *Statutes of Canada* (1884), 47 Vict. c. 6.

[29] *Statutes of Canada* (1930), 20-21 Geo. V, c. 37.

[30] Brief, pp. 4, 21.

[31] Ev. p. 4902. See also p. 5108.

[32] Ex. 174, Report of Royal Commission on Reconveyance of Land to British Columbia, p. 29.

[33] Ev. pp. 5110-13; 5240-41; 5869-71.

[34] Ev. pp. 5879, 5891.

Where one of the parties to the terms of union, through its responsible representatives, asks that the agreement be given a strict and literal meaning, we feel it would be impossible for us to do other than apply the rules of construction which would be applicable to a contract. We find, therefore, that the argument finally made on this point on behalf of British Columbia is valid, and that the payment of $100,000 annually was a payment for the railway lands as it purported to be.

From this conclusion as to the true nature of the $100,000 grant for railway lands certain results follow. The payment in purchase of these lands is being continued after most of the lands have been reconveyed to the Province pursuant to the recommendation of the Martin Commission. If the grant of $100,000 annually was payment for over fourteen million acres of land in the Railway Belt and the Peace River Block, one would expect that a proportionate reduction should be made after reconveyance to the Province of nine-tenths of the total area. Counsel for the Province recognized this difficulty and pointed out that there had never been any inquiry for British Columbia, as there had been for the Prairie Provinces, to ascertain the value of the lands alienated or the compensation to be paid for the use of the lands by the Dominion. Counsel also pointed out that in the 1935 submission by the Province claims had been advanced both that the original subsidy should have been calculated on an assumed population of 120,000 (on the theory that the land grant was a payment for the land) and that the Dominion should account for the use of the land and for the value of lands alienated. In counsel's opinion the Province was "not entitled to have it both ways", and he explained that in preparing his brief he had deliberately left out a claim for the use and alienation of lands by the Dominion.[35] Having agreed that the $100,000 grant should be treated as payment for the railway lands, we agree also that the continuation of this grant after more than 90 per cent of the lands had been reconveyed to the Province must be regarded as adequate compensation to the Province for the use and alienation of lands by the Dominion during its tenure. In so finding we rely not only on the specific waiver of such a claim by counsel, in the presence of the Premier and other members of the Government of the Province, but we rely also on the discussion of Mr. Justice Martin at pages 26 and 27 of his Report concerning the value of these lands and the expenditures by the Dominion on them, from which we conclude that a payment of $100,000 annually in perpetuity would provide adequate and generous compensation for the use of these lands by the Dominion and the alienation of part of them.

No claim has been advanced by the Province, under this heading, but we considered it wise to discuss the subject in this way, so that, in making our recommendations as to British Columbia's special claims, it should be clear both that no claim has been passed over without consideration and that no claim has been left outstanding.

(b) The Assumed Population of 1871

On the assumption that the annual grant of $100,000 was in payment for the Railway Belt, British Columbia argued that the assumed population of the Province, on entering Confederation, should have been 120,000 as requested by the Province instead of 60,000 as eventually agreed by the representatives of both the Province and the Dominion.[36] It was claimed that British Columbia is entitled now, to be placed in the position that she would have occupied had the original proposal for an assumed population of 120,000 been accepted by the Dominion. We think that the validity of this claim does not follow from the acceptance of the argument that the land purchase was a bona fide transaction. It was suggested to us that while the Dominion might not have been willing to purchase the Railway Belt as an independent transaction, it was willing to do so as part of a much larger transaction.[37] We think it is equally plausible to argue that while British Columbia might not have been willing to enter Confederation with an assumed population of 60,000, yet, as part of a larger transaction, in which provision was made for union and for the construction of a railway, it was willing to accept a figure of 60,000 for its assumed population, provided it found a purchaser for the Railway Belt at a price of $100,000 annually. At all events the British Columbia delegates accepted the assumed population of 60,000, the Legislative Council adopted the terms of union and a petition was addressed to the Imperial Government seeking union with Canada. We think it quite impossible to say that in all these agreements and actions the representatives of the Province were mistaken and unwise, or to find that the Province is now entitled to be paid the difference between the subsidies actually received and the subsidies that would have been received on an assumed population of 120,000

[35] Ev. p. 5111.

[36] Ex. 180, Brief of Argument, pp. 10-13.

[37] Ev. p. 5879.

between 1871 and 1896 (when the actual population reached 120,000). It is noteworthy that, in the general settlement between the Province and the Dominion in 1884, when an agreement was reached "for the purpose of settling all existing disputes and difficulties between the two governments,"[38] it does not appear that any claim was put forward by British Columbia on the ground that its population had been assumed to be 60,000 instead of 120,000 as originally asked.

In view of the argument addressed in Victoria to the Commission on the subject of the finality of subsidy settlement, especially with respect to the assumed population of 1871, it may be well for the Commission to state its views on this point. We think that the proper attitude toward these settlements was accurately defined in discussion at Victoria between the Chairman (Chief Justice Rowell) and counsel for British Columbia when it was stated that all relevant facts should be considered, including any statements by the Province that it viewed certain settlements as final. But such statements were valuable only as evidence that a settlement had been considered to be satisfactory by provincial representatives at the time, and acceptance by the elected representatives of the Province was strong evidence that the settlement was in fact fair and equitable at the time it was made.[39]

If we were convinced that a serious mistake in calculation had been made or that the representatives of the Province in 1870 had been deceived, or if important new facts had become known which were unknown at the time, we would not hesitate to recommend that the Dominion should make such adjustments as fairness and justice might have required. But it is one thing for a province to accept a sum in final settlement of its subsidy claims, and later to contend that because of intervening changes in its responsibilities the sum which was accepted is no longer adequate for its needs. It is quite a different thing for a province to accept a certain basis of calculation for its subsidy, and many years later, to argue that the agreed basis of calculation should, as of right, be replaced by a more generous basis which had been proposed by the province and rejected by the Dominion. The Province's claim must, therefore, rest on inequality of treatment since Confederation, and not on any right to readjustment of the original terms of union seventy years later.[40]

(c) Revision of Per Capita Subsidies and Debt Allowances

Two items of the claim still remain to be examined; that for a two-and-a-half year revision of per capita subsidies, and that for a revision of debt allowances. Both claims are based on the assumption that British Columbia was in an analogous position within federation to the Prairie Provinces, and, therefore, should have been accorded the same financial terms on these matters.

The original provision of the British North America Act for revision of per capita subsidies following each decennial census applies to all provinces except the three Prairie Provinces.[41] In 1885 it was provided that after Manitoba's population surpassed the assumed number of 150,000 its per capita subsidy should be revised after a quinquennial census together with a revision halfway between each census based on the estimated population of the Province. This change began to take effect after the census of 1891. The reason for the change was undoubtedly to make more quickly available to the Province any benefits in the way of subsidies arising from its rapid expansion of population. It should not be overlooked that Manitoba was at the time in a difficult financial position, and that, as a rapidly expanding province, its financial needs were also likely to expand rapidly. Similar provisions were made in the Saskatchewan and Alberta Acts of 1905. These changes were confirmed by the general subsidy revision of 1907. The amendment of the British North America Act of 1907 also provided for lump sum subsidies for each province "for the support of its Government and Legislature" in accordance with its population within fixed totals. The Prairie Provinces thus stood to gain more quickly than other provinces from an expansion of population in two ways: first by a two-and-a-half year revision of per capita subsidies; and second, by increased lump sum subsidies, if during the period between the decennial census they moved to a higher population group for purposes of a lump sum subsidy. British Columbia now claims that it should have enjoyed preferential treatment in the matter of revision of per capita subsidies like Manitoba since 1891, and that it should have enjoyed the advantages of revision of lump sum subsidies since 1907 like

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[38] See *Statutes of Canada* (1884), 47 Vict. c. 6.

[39] Ev. p. 4981. See also Ev. p. 4904.

[40] For calculations of the claim under various heads based on an initial assumed population of 120,000 instead of 60,000. see Exs. 415, 416, 417 and 420.

[41] For history of subsidies and debt allowances see W. Eggleston and C. T. Kraft, *Dominion-Provincial Subsidies and Grants*, (mimeographed); J. A. Maxwell, *Federal Subsidies to the Provincial Governments in Canada;* and *Federal Subsidies and Grants to the Provinces of Canada*, Dept. of Finance, Ottawa, 1937.

the Prairie Provinces. Under the former head it claims back payments for $1,905,306.60 and under the latter, $225,000.[42]

The claim for revision of debt allowances has a somewhat similar background. The Province entered federation in 1871 with an assumed population of 60,000 and a per capita debt allowance of $27.77 the same as that of Nova Scotia. The request of the Province for revision now of the assumed figure of population to 120,000 instead of 60,000 has already been dealt with in discussing per capita subsidies, and the reasons for refusing this request apply here also. The Province shared in the general revision of debt allowances of 1873 and 1884. On the original population base of 60,000 the total debt allowance then was $2,029,391, from which a considerable amount has been withdrawn by the Province with the result that annual interest payments on debt allowances from the Dominion now stand at $29,151. No general revision of debt allowances has been made since 1884, but a special revision was made for Manitoba in 1885. In 1905 the two new provinces, Alberta and Saskatchewan, were each given an assumed population of 250,000 (which, however, approximated to their actual populations) and a per capita allowance of $32.43, making a total allowance of $8,107,500. In 1912 Manitoba's debt allowance was revised to the same figure, and payments antedated to 1908 to bring it into line with the other Prairie Provinces.[43] British Columbia now claims that it should have been given similar treatment, and requests that its debt allowance be made equal to that of one of the Prairie Provinces (an assumed population of 250,000 and a total allowance of $8,107,500) as from 1912. Back payments, according to the Province's estimate, would amount to $8,326,413 on which it claims compound interest at 5 per cent. It requests that the whole be considered a capital sum and interest thereon at 5 per cent be paid for the future.[44]

Undoubtedly there were certain economic similarities between British Columbia and the Prairie Provinces. Like the Prairie Provinces, British Columbia until recently was a "pioneer" province undergoing rapid settlement and expansion. But constitutionally the position of British Columbia was very different. The Province entered federation of its own free will, and made its own bargain as to the terms of union, as did the older provinces. The Prairie Provinces, on the other hand, were created by the Dominion out of Dominion territory, and it was entirely within the Dominion's power to lay down such financial terms for these new provinces as it wished. We know of no constitutional requirement that the financial relations with these new provinces had to be identical with those of the older provinces. It may, of course, have been expedient to arrange financial relations which were not utterly dissimilar from those with the older provinces, but expediency is quite a different matter from constitutional obligation.

Moreover, we think that the financial terms on which these new provinces were constituted should be considered as a whole, and that it is quite unsound to single out the items of frequent revision of per capita subsidies and debt allowances and to found a claim thereon. It must be noted that in one respect the Prairie Provinces were seriously restricted both from a financial and a constitutional point of view: their natural resources were reserved for the purposes of the Dominion until 1930.

This constitutional difference had practical consequences. Without control of their natural resources, the Prairie Provinces were compelled to shape their policies respecting highways, schools, and other public services to meet the needs which arose out of the Dominion Government's policy of free homesteads and rapid settlement.[45] The words of Sir Robert Borden when introducing legislation in 1912 to place Manitoba on a position of equality with the other Prairie Provinces are evidence that the three Prairie Provinces were then regarded as having a special status both financially and constitutionally:—

> "Because, I repeat once more, these three provinces (Alberta, Saskatchewan and Manitoba) stand in a different category from the other six provinces of the Dominion. The other six provinces have their natural resources, their public domain, mines, minerals and other assets of that kind; these three provinces have not those assets. Having in regard these considerations our policy and our proposal is, in the first place, to put Manitoba upon the same just and fair basis as that which has already been granted to Alberta and Saskatchewan, and then to take up, at the earliest opportunity, the question of the terms upon which the natural resources of all three prairie provinces shall be handed over to the administration of these provinces."[46]

It is true that the Prairie Provinces were granted subsidies in lieu of lands, and that recent Royal Commissions have recommended compensation for

[42] Ex. 417. See also Ev. pp. 5011*ff*.

[43] *Federal Subsidies and Grants to Provinces of Canada*, Dept. of Finance, Ottawa, 1937.

[44] For estimates of Province see Ex. 417.

[45] For discussion of this point see Ex. 236, Brief of Edmonton Chamber of Commerce. Also Ev. pp. 6003*ff*.

[46] *Debates, House of Commons*, 1912, p. 4296.

revenues which they might have enjoyed had they had control of their natural resources. While compensation for lost revenues may be possible, it can scarcely be said that they have been compensated, or could be properly compensated, for such an intangible but none the less real factor as inferiority of status to which they were subjected prior to 1930.[47] British Columbia was never subjected to this inferiority of status. It entered federation as a completely autonomous province, and had full use both before and after federation of its public domain for its own purposes (with the exception of the Railway Belt for which it received and is still receiving compensation from the Dominion). The analogy between British Columbia and the Prairie Provinces prior to 1930 from a constitutional point of view is, therefore, quite unsound. If constitutionally British Columbia's position within federation was different from that of the Prairie Provinces, there is no valid reason for assuming that its financial relations with the Dominion should have been identical with those granted the Prairie Provinces.[48]

But the situation after 1930 was obviously different from that before. In 1930 the Prairie Provinces acquired full constitutional equality with other provinces. We think that as from that date the claim of British Columbia for similar terms in the matter of debt allowances and revision of per capita subsidies is entirely reasonable. There was, of course, no legal obligation on the part of the Dominion so to revise the financial terms, but the long history of settlements for "better terms" between the Dominion and the provinces indicates that the Dominion has long recognized a moral obligation to effect approximate equality in financial terms as between provinces within the same general region of the Dominion. Thus Ontario and Quebec have always been treated on virtually identical terms, and more recently the Maritime Provinces have been recognized as having peculiar difficulties which entitled them to special treatment as compared with other provinces.[49] We think, therefore, that on this basis British Columbia was entitled to equal treatment with the Prairie Provinces after 1930. Presumably the special interim subsidy of 1934 took account of this, subject to an accounting later.

With respect to the period prior to 1930, to recommend the amounts claimed by the Province would clearly place it in a privileged position as compared with the other Western Provinces, since it would then be given complete equality of financial terms while it had in fact enjoyed a superior constitutional position. On the other hand, we do not feel that it would be quite fair to British Columbia to recommend that it receive no compensation for the period prior to 1930. It was undergoing an experience of settlement and expansion more analogous to that of the Prairie Provinces than to that of the provinces of Central and Eastern Canada, and would have benefited by more frequent revision of per capita subsidies. With regard to debt allowances, it is obvious that they served a different purpose in the case of the four Western Provinces than in the case of the Central and Eastern Provinces. The latter entered union with capital equipment in the way of public buildings, roads, etc., and the debt allowances included expenditures for this equipment. Moreover, they turned over to the Dominion considerable assets as part of the settlement. On the other hand, debt allowances were a means of assisting the Western Provinces to acquire necessary capital equipment.[50] British Columbia was in a slightly different position from the other Western Provinces in that it was in existence as a colony before union and had some capital equipment, but its position with respect to capital equipment was more analogous to that of the Western than to that of the Eastern Provinces. While this may not have been recognized when debt allowances were fixed in 1871, there is some ground for the claim that some revision should have been made later.

We think, therefore, that the Province, because of economic conditions similar to those of the Prairie Provinces, is entitled to some adjustment for the period prior to 1930 both in the matter of revision of its debt allowance and in the matter of revision of per capita subsidies on a two-and-a-half year basis. But in view of the different constitutional status of British Columbia from that of the Prairie Provinces prior to 1930 it is not entitled to the full amount of its claims under these heads.

We have now considered in detail all the specific heads of claim advanced by British Columbia in support of the request for "better terms." At the hearings in Victoria the Province also presented

[47] The Royal Commissions on the Natural Resources of Saskatchewan and Alberta carefully restricted recommendations to compensation for possible lost revenues. The Saskatchewan award declared (p. 36): "We have sought to give Saskatchewan what we think the Province itself would probably have made out of its resources if it had had what each of the four older provinces had, that is, a free hand with its own public domain." A similar declaration was made in the Alberta award (p. 38).

[48] "Equality [as between provinces] does not and cannot mean equality in an unqualified sense." *Report of Royal Commission on the Natural Resources of Saskatchewan*, (1935) p. 18. For general discussion as to equality between provinces see the above Report and *Report of Royal Commission on Transfer of Natural Resources of Manitoba*, (1929).

[49] *Report of Royal Commission on Maritime Claims* (1926).

[50] *Report of Royal Commission on Financial Arrangements between the Dominion and Maritime Provinces*, (1935), p. 14.

argument concerning the relationship existing between the Dominion and the provinces generally, and it was, perhaps, inevitable that such argument should become confused at times with the argument concerning the special claims of British Columbia. We mention the matter merely to make clear that we do not consider the argument on such subjects as the effect of Dominion income taxes, the effect of Dominion tariff policy, or the taxation of revenues derived from the depletion of provincial natural resources, as being relevant to the special claim for equality of treatment in the matter of subsidies, nor do we think such argument was so directed by the Province.

Summary and Recommendations

We may summarize briefly our findings and recommendations.

We do not think that the Province is entitled to any special assistance on account of its topography, because it has not been shown that any general condition of fiscal need arises therefrom.

We do not think that the Province is entitled to have its financial relations with the Dominion altered by assuming now that its population in 1871 was 120,000 instead of 60,000 as then assumed.

We think that as from 1930 the Province was in fairness entitled to the same treatment in the matter of revision of per capita subsidies and debt allowances as the Prairie Provinces.

We think that, in fairness to the Province it should receive some adjustment for the period prior to 1930 because there had been no revision of per capita subsidies and debt allowances similar to the arrangements made with the Prairie Provinces, but we think that it is not entitled to the full amount claimed in view of the fact that during the entire period it controlled the disposal of its natural resources whereas the Prairie Provinces did not.

After careful consideration of the whole matter we think that the special interim subsidy begun in 1934 was adequate to take account of all items on which the claims of the Province can reasonably be allowed. If the debt allowance be deemed to have been increased as from 1934 to that of the Prairie Provinces the interest on the increase would amount to slightly more than $300,000 annually ($8,107,500 less $2,029,391 = $6,078,109 at 5 per cent = $303,905.45). The balance of approximately $450,000 annually is, we think, an adequate allowance for the two other items which we have allowed in part—a two-and-a-half year revision of per capita subsidies prior to 1930, and increased debt allowance prior to 1930—as well as any increases in interest on debt allowance, and per capita subsidies, to which the Province was entitled between 1930 and 1934. We think, therefore, that the special interim subsidy of 1934 was a fair and generous settlement and no better estimate can be made by us.

In order to remove any doubts as to the future position of British Columbia vis-à-vis the Prairie Provinces, we recommend that British Columbia be accorded the same treatment as the Prairie Provinces in the matter of revision of per capita subsidies. At present, as pointed out above, revision of their subsidies depends upon a quinquennial census. We have had occasion to recommend elsewhere that the quinquennial census be dropped unless the whole country is treated equally in this respect.* But if this recommendation is not carried out, British Columbia should be placed on equality with the Prairie Provinces in the matter of census revision of per capita subsidies. Further, in order to remove any doubt about debt allowances, we recommend that henceforth British Columbia be accorded a debt allowance of $8,107,500, the same as that of the Prairie Provinces, and that the difference between the interest on the increased debt allowance and the interim subsidy of $750,000 be paid to the Province as a special annual subsidy, in full settlement of all claims for the period prior to 1934.

We recommend further that the special interim subsidy be replaced by statutory provisions for revision of debt allowance for the future.

The above recommendations for the revision of per capita subsidies and the debt allowance for the future will be applicable only if our general financial proposals (Plan I) are not implemented, since, if they are, the present system of subsidies and debt allowances will no longer operate.

In conclusion, we wish to emphasize that our recommendations are based on our opinion of what is fair and reasonable both to the Province and to the Dominion, taking all relevant factors into account. We have found no principle, or set of principles, and no system of accounting that fits the case. We do not pretend to have reached scientific conclusions, or to have based our findings entirely on principle. The fact is that provincial subsidies in general no longer rest on consistent principles. It is our hope that, if our general financial plan for a complete revision of the system of financial relations between the provinces and the Dominion is accepted, claims such as we have dealt with in this chapter will not in the future disturb relations between any province and the Dominion.

* See p. 171.

Chapter III

BRITISH COLUMBIA'S CLAIM AS TO PACIFIC GREAT EASTERN RAILWAY

At the hearings of the Commission in Victoria it was argued[1] on behalf of the Province of British Columbia that the Dominion was under obligation to take over from the Province the provincially-owned railway known as the Pacific Great Eastern.

This railway is 348 miles long running from Squamish to Quesnel within the Province of British Columbia. Its construction was begun in 1912 by a private company, securities of the railway up to $35,000 (later $42,000) per mile being guaranteed by the provincial government. This company had an agreement with the Grand Trunk Pacific Railway Company providing that traffic destined for Vancouver and points on the proposed Pacific Great Eastern should be routed over the latter railway. During the War (1914-18) the company was unable to complete construction of the railway, and the Provincial Government was compelled in 1918 to take over the assets and liabilities of the company and finish the building of the road. It was stated by the Province that its total investment in this railway was approximately $78,000,000, and that the line is now showing a small operating profit which gives some indication of increasing as the area served by the railway develops.

It was argued before us that the Province had been deprived of the prospective benefits of the connection of the Pacific Great Eastern with the Grand Trunk Pacific and the prospect of making the former railway the Pacific outlet at Vancouver for the transcontinental line of the Grand Trunk Pacific Railway. When the Dominion amalgamated the Grand Trunk Pacific and the Canadian Northern into the Canadian National Railways system it made use of the outlet of the Canadian Northern railway to Vancouver by way of the Thompson and Fraser river valleys. It was also urged that the Dominion had established a policy of acquiring certain smaller railways under the Branch Line Act of 1915, and figures were quoted showing an investment of approximately $26,000,000 in such lines throughout Canada. Counsel for the Province of British Columbia contended that "it is in the interest of Canada that this railway should be completed to Prince George and from there northward, so as to give a Pacific outlet through the Ports of Prince Rupert and Vancouver to the Peace River Country." It was submitted that the Pacific Great Eastern railway and the proposed extensions should form part of the Canadian National Railways or should be operated under the joint control of the Canadian National and the Canadian Pacific Railway Companies. A number of advantages from such a course were cited, chief of which were the creation of an outlet to the Pacific from the Peace River District, and the relief of the Province of British Columbia from part of its financial burden. It was contended that the Dominion was under obligation to relieve the Province because Dominion railway policy had resulted in the destruction of the traffic arrangement with the Grand Trunk Pacific Railway which was the basis for the construction of the Pacific Great Eastern.

We are unable to see how any obligation was imposed upon, or inferentially accepted by, the Dominion, and, indeed, counsel for the Province stated that he did not suggest that there was any obligation in any legal, or moral, sense. He contended that there was some kind of "public" obligation arising from the fact that Dominion railway policy has so operated as to damage a provincial railway enterprise. It is well known that the taking over by the Dominion of the Grand Trunk Pacific and the Canadian Northern railways was the result of the failure of those enterprises, and we can find no basis for holding that the Dominion must come to the assistance of an unprofitable railway merely because it has in the past considered that it was in the public interest to assist other railways with which that railway had entered into contractual relations. This is a clear example of the point which we have sought to make elsewhere in this Report,[2] that unco-ordinated transportation policies of the Dominion and Provincial Governments have in the past caused, and will continue to cause, great loss and difficulty. It would, of course, be well within the powers of

[1] Ex. 180, Brief of Argument Counsel for B.C., pp. 34-37. See also Brief of B.C., pp. 196-97, 353; Ev. pp. 5143-54B.

[2] See Sect. D, Ch. IV.

the Dominion to acquire the Pacific Great Eastern as part of the Canadian National system, but this is wholly a question of policy upon which we are not called upon or empowered to advise. It is sufficient for us to state that we are unable to find that an obligation of any sort rests upon the Dominion to implement the proposals of British Columbia as to the Pacific Great Eastern railway.

A careful perusal of the general recommendations that we make elsewhere[3] as to the assumption by the Dominion of the deadweight burden of provincial debts will show that if these recommendations are implemented British Columbia will retain the physical assets of the Pacific Great Eastern railway while it would have no interest charges to meet in connection with this railway. British Columbia would, therefore, stand to benefit either by increasing the operating income of the railway or by disposing of it to any purchaser it might find. The Province would thus be substantially better off than if the Dominion were to buy the Pacific Great Eastern tomorrow and our general recommendations took effect later.

[3] See Sect. B, Chs. II and IV.

Chapter IV

SASKATCHEWAN'S CLAIM FOR REVISION OF THE NATURAL RESOURCES AWARD

The Government of the Province of Saskatchewan in its printed brief[1] discussed at length the claim of the Province arising from the fact that for many years it had been deprived of the administration and control of its natural resources. On the creation of Alberta and Saskatchewan in 1905, the natural resources in these Provinces were retained by the Dominion "for the purposes of Canada" and special subsidies were provided because of this retention by the Dominion of the public land which would otherwise have been a source of revenue for the Provinces.[2]

From 1905 until 1930 there was considerable agitation for the return to the Provinces of Saskatchewan and Alberta of their natural resources. By an agreement dated March 20, 1930 between the Governments of Canada and Saskatchewan and approved by appropriate legislation, provision was made for the return to Saskatchewan of its unalienated resources and for the appointment of a commission to report as to what sums should be paid to the Province "in order that the Province may be placed in a position of equality with the other provinces of Confederation with respect to the administration and control of its natural resources". A commission was appointed in September, 1933, and reported in March, 1935. The majority (Mr. Justice A. K. Dysart and Mr. George C. McDonald) recommended payment of $5,000,000 to the Province by the Dominion as compensation for the retention by the Dominion of the Province's natural resources. Mr. Justice Bigelow, in a minority report, recommended payment by the Dominion to the Province of over $58,000,000.[3]

The agreement of March 20, 1930 between the Dominion and Saskatchewan provided for the submission of the report of the Commission to the Parliament of Canada and the Legislature of Saskatchewan, and for an ageement between the two Governments following the submission of such report. No agreement has yet been reached and the payment of compensation in respect of the natural resources of Saskatchewan remains unsettled.

In his argument to us on behalf of the Province of Saskatchewan, the Attorney-General suggested that the minority report of Mr. Justice Bigelow rested upon firmer principles than did the majority report. He also suggested that, when the whole relationship between the Dominion and Saskatchewan was under review, the claim respecting natural resources should likewise be reviewed and a recommendation made which would aid in settling this dispute.[4] In the hearings at Regina, the first Chairman of our Commission pointed out that it was impossible for us to sit in review of a commission which had examined and reported on this matter in an exhaustive way. He expressed the opinion that while we might feel that on any financial adjustment the whole matter should be settled, and while we might emphasize the desirability that a settlement should be reached, it seemed impossible for us to make detailed recommendations on such a complicated question which had already been the subject of a special inquiry.[5]

On further consideration we have been strengthened in the view expressed by the Chairman that it is impossible for us to sit in review of the findings of the Dysart Commission.

We strongly recommend, however, that this claim should be settled before, or as part of, any general readjustment of the financial relations between the Province and the Dominion. If our financial proposals for assumption of provincial debts by the Dominion and for the replacement of existing subsidies by adjustment grants based on fiscal need are adopted, we think it would not be unreasonable that the Province should relinquish all outstanding claims arising under the settlement of the question of natural resources especially since payments under the Natural Resources Award would automatically reduce the payments on the ground of fiscal need which we have recommended.

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Although we have not had the benefit of direct submissions from the Province of Alberta, much of what we have said concerning the natural resources of Saskatchewan applies to the natural resources of Alberta. We think it is equally desirable that the outstanding claim of Alberta for compensation should be settled at the time when a general readjustment of Dominion-provincial relations is made.

[1] Pp. 258-72.
[2] "The Saskatchewan Act", *Statutes of Canada* (1905), 4-5 Ed. VII, c. 42.
[3] *Report of the Royal Commission on the Natural Resources of Saskatchewan, 1935.*
[4] Brief, p. 272.
[5] Ev. p. 1835.

Chapter V

CLAIMS CONCERNING TRADE THROUGH MARITIME PORTS

Serious complaints respecting the failure of external trade to flow in sufficient volume through the ports of the Maritime Provinces were voiced in hearings for these Provinces, and claims based thereon were advanced against the Dominion, especially by the Province of New Brunswick.

Before discussing these submissions some general observations on the nature of the claims for increased subsidies which have arisen from time to time since Confederation are, perhaps, in order. Usually these claims have arisen out of a condition of real fiscal need on the part of the province concerned. The unequal financial position within Confederation in which certain provinces have found themselves from time to time is apparent from the survey of the economic and financial history of Canada given in Book I of this Report. Financial difficulties have often been the product of adverse economic conditions and they have usually been accompanied by a strong, if vague, sense of injustice on the part of the government and the people of the province. As a result, discontent with the settlement of 1867 has frequently developed out of a condition of provincial fiscal need. The great difficulties experienced on occasion by some provincial governments in raising needed revenues by increased taxation has again and again driven them to seek aid from the Dominion Government. But hitherto there has been no recognized constitutional principle on which they could frame an effective appeal for aid, and no machinery for assessing need even if the principle of Dominion obligation in the circumstances were admitted. In the absence of express constitutional principles applying to a situation where a province finds itself in fiscal need and of convenient political apparatus to measure fiscal need, the disposition has been to seek for contractual or equitable grounds which might be plausibly worked out in terms of dollars and which would satisfy current sentiments of right and justice. It is not implied that in none of the claims presented to Ottawa in the past seventy-two years has there been a real legal or contractual basis. But taking the history of negotiations for increased subsidies as a whole, real fiscal need has been time and again the real basis for petitions put forward on legal or quasi-legal grounds for sums allegedly owing to the provinces by the Dominion, supported often by lines of arguments which, to say the least, were unrealistic.

The financial plan which we have recommended elsewhere in this Report should encourage a more realistic approach to the problem. The plan frankly accepts provincial fiscal need (assessed on a comparative basis) as the basis for estimating adjustment grants to the provinces and it provides for periodical revision to take account of changing fiscal needs. In so far as the claims discussed in this chapter are reflected in provincial fiscal need they have been taken account of in estimating new subsidies for the Maritime Provinces. We might, therefore, have omitted separate discussion of the claims. But no attempt to place Dominion-provincial relations on a cordial and healthy basis could be successful unless it took sympathetic account of long-standing grievances, such as those concerning the use of Maritime ports by the rest of Canada. The Commission is glad, therefore, that this issue was brought before it in a frank and friendly manner, and it hopes that a careful examination of the merits of the claims presented will assist in alleviating an old source of misunderstanding and discontent.

The group of claims which revolve around the relative failure of Canadian import and export trade to flow through the commercial routes of the Maritimes will now be considered.

The contention that the Dominion has failed to live up to its obligations regarding trade through Maritime ports finds its fullest expression in the brief of the New Brunswick Government, and in the submission by the Transportation Commission of the Maritime Board of Trade which in the discussion of transport matters spoke for the Governments of the three Maritime Provinces. In addition, representations on transport matters were made by the Saint John Board of Trade and the Fredericton Board of Trade. In addition to the general case for preferential treatment in transportation for the Maritime Provinces, supported especially by the Transportation Commission, the New Brunswick Government charged that an engagement solemnly entered into as an

essential feature of Confederation has been continually ignored and evaded from Confederation to the present time by the Government of Canada to the great injury of New Brunswick. Complaint was also made by the Province of New Brunswick that the Dominion Government in making the Intercolonial railway a part of the Canadian National system in 1918 broke an understanding dating from Confederation that the road would be operated in perpetuity by the government and kept separate and distinct from all other Canadian railways.[1]

Before commenting item by item upon the several aspects of this related chain of claims it will be useful to outline the essential facts of the transportation history out of which these complaints have arisen.

It is abundantly clear that prophecies were made by the exponents of Confederation that as a result of the political union of the provinces and the building of the Intercolonial railway, the external trade of the new Confederation would in large part flow by way of the Maritime ports. It was believed that, as a direct result of this new stream of commerce, an era of greater prosperity would dawn in the Maritimes, based first, on the capital investment needed to supply the transportation and port equipment, second, on the enlivening of domestic trade and employment and the improvement of markets resulting from the concentration of Canada's foreign trade through Maritime ports.

It is equally clear that the expectations of those pre-Confederation days were not fully realized. For reasons of transportation economics which the Fathers of Confederation did not know, or because of technological changes then under way, the effects of which they could not foresee, the traffic flowing over the Intercolonial railway and through the ports of Saint John and Halifax proved disappointing. In addition to Montreal, Quebec and later Vancouver, Portland, Boston and New York, attracted much of the external trade of the Dominion. The evolution of the steamship and the great improvement of the St. Lawrence waterway cheapened water transport and placed railway transport at a competitive disadvantage. The geographical advantage which in the era of sailing vessels Halifax enjoyed in relation to Liverpool ceased to be significant with the age of steam and steel. Steam vessels sought rather to penetrate as far as possible into the interior of the continent for their cargoes. The bulk and diversity of cargoes offering at New York and Boston was a powerful magnet. Nor did the export trade originating in the old Province of Canada live up to expectations. Its wheat exports declined as Ontario and Quebec became more industrial, while the new export products, such as pulp and paper, went mainly by rail to the United States.

Repeated efforts were made by the Dominion Government to direct trade over east-west lines and improve the flow of traffic over Maritime railways and through Maritime ports. The tariff policy was designed to retain as much Canadian trade for Canadian industry and transportation as practicable. The building of the Short Line linking Montreal with Saint John, begun in 1884 and completed in 1890, and the $170,000,000 undertaking (the National Transcontinental) to link Moncton with the wheat fields of the Northwest, illustrate the earlier efforts made through Dominion transportation policy to carry out what was accepted as one of the moral obligations of Confederation. In 1923 an inducement to use Canadian ports was inserted in the tariff by the provision that the duty on goods so shipped from British preferential countries would be entitled to a 10 per cent deduction, and in 1927 the entry via Canadian ports was made compulsory if the shipment was to enjoy the benefits of the preferential tariff. Large sums were spent upon improvement of port facilities at Halifax and Saint John.

The policies pursued by the Dominion Government failed to achieve in full the ends sought. Though the rest of Canada made material sacrifices in an effort to divert trade through Maritime ports, a large part of it continued to flow elsewhere. Still more drastic policies might have been adopted, but we are satisfied that the tariff and transportation policies which would have been necessary to force practically all Canadian external trade through the ports of Halifax and Saint John would have laid an intolerable burden upon the industries of Canada. The benefits to be derived from such a diversion in the Maritime Provinces would have been far outweighed by the handicaps which would have been laid upon the national economy as a whole, and the benefits for the Maritime Provinces themselves would have been at best temporary and illusory, since the adverse effects upon the rest of the economy would have been reflected before long in Maritime depression as an echo of general economic decadence of the Dominion.

[1] Ex. 357, Brief of N.B., pp. 74-121, Ev. pp. 8805-92, 8979-9011, 9014-52; Ex. 413 Supplementary Brief of N.B., Ev. pp. 10,183-286; Ex. 366, Brief of Maritime Transportation Commission, Ev. pp. 8862-8914; Ex. 140, Brief of N.S., p. 105; Ex. 161, Brief of P.E.I., pp. 46-47; Ex. 369, Brief of Saint John Board of Trade, Ev. pp. 8932-73; Ev. (Fredericton Board of Trade) pp. 8973-78.

We shall now consider the principal claim of the Province of New Brunswick which alleges a breach of an agreement antedating Confederation regarding the use of ports of the Maritime Provinces by the Dominion.

The Transportation Provisions of Confederation

The Province of New Brunswick contended it had "entered the Confederation upon faith of an agreement" which has not been fully carried out. New Brunswick submitted that a "material portion" of the "contract of Confederation" is to be found in Resolution 66 adopted by the conference of delegates from the various Provincial Governments held at London in 1866 prior to the passage of the British North America Act. Resolution 66 reads:—

> "The communication with the North Western Territory, and the improvements required for the development of the trade of the Great West with the Sea-board, are regarded by this Conference as subjects of the highest importance to the Confederation, and shall be prosecuted at the earliest possible period that the state of the Finances will permit."

This resolution was not incorporated into the British North America Act; but the New Brunswick contention is that the whole series of resolutions adopted at London constitutes a "joint declaration" and "agreement" binding upon all the parties. New Brunswick urged that this view is supported by the reference in section 145 of the British North America Act (relating to the construction of the Intercolonial railway) to a joint declaration and an agreement between the federating provinces, which, it is contended, can only refer to the agreement contained in the London Resolutions. Subsequently, it is said, the Dominion admitted both by the preamble to the Intercolonial Railway Act of 1867, and by the acceptance of the Imperial guarantee provided in the Canada Railway Loan Act of 1867, that such an agreement was binding.[3]

By Resolution 66, according to the interpretation offered in the New Brunswick submission, the provinces engaged that provision would be made (presumably by the Dominion) for "such port facilities and shipping connections as would move the freight from the Great West to the Seaboard and from the Seaboard to the Great West and other points." The claim is repeatedly made that the term "Seaboard" in the resolution meant only the Maritime Provinces. The opinion is also developed that the "agreement" meant that the entire overseas import and export trade of Canada was to be routed through the Maritime ports. This, it is stated, was the "understanding" of the people of New Brunswick upon which they placed "absolute reliance". The Dominion was thus obligated, it is argued, so to control freight rates as to secure this trade for Maritime ports and also to see to "the creation of port facilities and shipping connections and ocean rates" to enable trade to move through these ports at all seasons of the year. "There could be no proper trade development at summer ports only." This is the burden of the New Brunswick case.[4]

Meaning of Term "Improvements".—If these were the engagements to which the Dominion was committed they involved obviously the abandonment by the Federal Government of canal construction and other developmental policies in which the Province of Canada had long been interested. A statement is made on page 92 of the New Brunswick brief that strongly suggests that in order to supply the "improvements" required by Resolution 66 the "hundreds of millions of dollars" spent largely on the St. Lawrence should have been devoted instead to the development of trade through Maritime ports.

Such engagements, it is argued, also involved "improvements in overseas freight rates" so that there might have been a "continuous development of the trade between the Great West and the Seaboard". It is to be observed that this would have required a control over railway freight rates which at that time lay outside the accepted scope of government, and also a control of ocean freight rates which has not even yet been attained. The Dominion Government is censured because "it did not discontinue the traffic to the American ports or try to do so." The inference is that the shipper should not have been allowed to route his shipments as he chose. To substantiate this attitude New Brunswick "relies" upon what it terms "the design of Confederation". "We say that it was perfectly feasible for the Dominion to cause the substantial part of the grain to be shipped to the East through British territory to the ports of Saint John and Halifax." "Importers of grain in Britain could easily have been persuaded to cause the grain to be shipped through British ports and the influence of

[3] Ex. 357, Brief of N.B., pp. 74*ff*.

[4] Brief pp. 90-92, 98, 110-11. See also Ev. p. 10,177.

the Imperial Government in that respect would have been a great factor in the accomplishment of this result."[5]

It is suggested in the supplementary brief of New Brunswick that Resolution 66 also involved the extension of the Intercolonial into the Great West to be operated on grounds of national policy with freight rates not based on commercial considerations.[6] There is no citation of documentary support for this contention, and we can find no contemporary evidence that this future for the Intercolonial was in the mind of anybody at that time.[7] The building of the National Transcontinental is described in the supplementary brief as a partial performance of Resolution 66: it could "only be attributable to the contract". But the Province contends: "The failure of Parliament to compel the traffic to follow that route [to the Atlantic ports] regardless of the act of the shipper, is a matter wherein the agreement was not carried out."[8]

It has, therefore, been necessary to reach definite opinions as to Resolution 66—its origins, the purposes it was meant to serve and the extent to which it imposed obligations on the Dominion Government. This examination must be on the lines of historical rather than legal inquiry. The Province did not put forward its case on strictly legal grounds: it argued rather that Resolution 66 constituted an "agreement that the provinces and the Dominion should carry out, from the standpoint of what is fair and right and just."[9] For the correct interpretation of Resolution 66 we must look, as does the Province, to the records and documents of the time.

The project of building an intercolonial railway preceded by years the emergence of any movement for Confederation; the difficulties, political and financial, which had prevented its construction, disappeared as the movement for Confederation gained strength. The supporters of Confederation in the Maritimes were delighted that they could at last obtain railway access to the markets of the upper provinces;[10] and the reluctance of strong political elements in the Province of Canada to embark upon this enterprise was transformed into active support by the fear that the United States (then in the stresses of Civil War) would suspend the bonding privileges by which alone Canadian trade could reach the sea during the winter months when the St. Lawrence route was not available.

The much-quoted statements by Canadian public men in their pro-union campaign in the Maritime cities in the late summer of 1864, and similar expressions of gratification in the Confederation debates of the Canadian Parliament in 1865 that the Central Provinces were thereafter to have an all-year access to the sea, are to be read, interpreted and appraised as political appeals for support for a policy which was then in issue before the people. As such, these statements are rightly subject to the qualifications and subtractions which informed contemporary opinion always applies to political advocacy. It is always to be borne in mind that the opposition to the project of Confederation, at every stage of its progress, was everywhere formidable. The public men who urged Confederation were, as their work establishes, statesmen; but they were also the partisans of an enterprise to which they had committed their political fortunes. They put their predictions of favourable results at the maximum of what they hoped was possible; and if these in actuality fell short of expectations, it can be said that the experience was far from unique in Canadian history.

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[5] Brief pp. 110-116. These views are supported by the supp. brief (p. 3): "It is quite apparent from the declarations made at the time of Confederation that the purpose of all parties was to avoid any necessity of conducting trade through United States territory and United States ports." Some qualification, however, appears to have been made in the hearings: Mr. Jones, counsel for New Brunswick (Ev. p. 10,094): "My view is that this traffic should have been forced to the outlying provinces and have developed our ports. I do not mean to say that none should have been sent to the United States, but I say that we should have had reasonable treatment."

[6] Supp. Brief, p. 26 and p. 40.

[7] It was apparently not until 1903 that any suggestion of extending the Intercolonial beyond a terminus of the St. Lawrence was made by responsible parties. In that year R. L. Borden and Hon. A. G. Blair suggested extension of the Intercolonial to Georgian Bay as an alternative to the construction of the National Transcontinental. *Debates, House of Commons*, 1903, pp. 8994-98.

[8] Supp. Brief, p. 40. The broad interpretation given to the term "improvements" by the Province is illustrated by the following extract: (Ev. p. 10,209)

"Mr. STEWART [counsel for the Commission]:...You are relying upon an implication, which you draw from clause 66 of the London Resolutions, that trade and commerce was to be compelled to follow the route from the west through Maritime ports. Do I understand that to be your contention?

Hon. Mr. JONES [counsel for N.B.]: Yes. Whatever improvements were necessary for the development of that trade must be provided."

And again at p. 10,210:

"Mr. STEWART: But there is nothing in section 66 about the cost of carrying freights over those lines of communication, and about improvements—not a word about that.

Hon. Mr. JONES: Not exactly, but there is this to be considered, that the improvements necessary for the development of trade involve the provision of harbour facilities, shipping facilities, to carry the export traffic outside of the country; and, if necessary, freight rates must be such as to promote the development of trade.

Mr. STEWART: Can you show me where the implication is substantiated that freight rates should be so reduced as to compel traffic to follow the route to the maritime ports? It certainly is not in section 66 of the resolutions.

.....

Hon. Mr. JONES: It is there of course, under the head of improvements."

[9] Ev. pp. 9010-11.

[10] The strong desire of the people of the Maritimes for railway connection with Canada was expressed by S. L. Tilley in his emphatic statement at the Quebec Conference: "We won't have this union unless you give us the railway". E. Whelan. *The Union of the British Provinces*, (1865) p. 72.

The whole situation with respect to the construction of the Intercolonial is readily understandable. There was agreement among the supporters of Confederation in all the provinces that the railway was desirable and that it would be mutually advantageous. To the people of Canada the prospect of the road was most welcome because they had been forced to consider what their plight would be if the frontier of the United States were closed to Canada's overseas trade. There is in the recorded speeches sufficient warning that Canadian public men did not consider access to the Maritime ports as a complete substitute for the United States' ports. Canada would not by its own act inflict upon itself the injury which it feared from the United States by the abolition of the privilege of shipping its products through that country in bond. The proposed Intercolonial was regarded as an alternative route, not a complete substitute for routes through the United States. This is made clear beyond all question by a speech of John A. Macdonald at Halifax, September 12, 1864, made during the tour of the Maritime Provinces by Canadian leaders in the interval between the Charlottetown and Quebec Conferences. Macdonald said:—

> "I don't hesitate to say that with respect to the Intercolonial Railway, it is understood by the people of Canada that it can only be built as a means of political union for the Colonies. It cannot be denied that the Railway, as a commercial enterprise, would be of comparatively little commercial advantage to the people of Canada. Whilst we have the St. Lawrence in Summer, and the American ports in time of peace, we have all that is requisite for our purposes. We recognize, however, the fact that peace may not always exist, and that we must have some other means of outlet if we do not wish to be cut off from the ocean for some months in the year."[11]

If the Maritime Governments were prepared to enter Confederation only on a basis of the special concessions, as to the highly preferential treatment in trade and in public improvements set forth in the New Brunswick brief, would they not have attached their conditions to the provisions in the British North America Act requiring the building of the Intercolonial, about which there could be no doubt, instead of relying upon an obscure phrase in the London Resolution No. 66, the application of which policy was contingent and conditional?

Instead there was, as the documents of the time make clear, a belief that the building of the road, which would establish a connection between the Canadian and the railway systems of the Maritime Provinces, would in itself bring all the happy results that were with such apparent confidence predicted. There was little general understanding of the economics of competition in transportation and an artless faith on the part of many that freight would move over a long railway haul regardless of water competition and would seek the ultimate land point of transference, instead of the nearest access to the sea as has been so clearly shown by the test of experience.[12]

Historians of the Confederation period and researches made on behalf of the Commission are in agreement in giving an Upper Canadian origin to Resolution 66. It was submitted and was adopted to reconcile Upper Canadians to the construction of the Intercolonial to which in the past they had been opposed.[13] The antecedents of the Resolution, the circumstances attending its appearance in the Quebec and London Resolutions, every direct reference to it of which there is record, suggest that this Resolution was a declaration of an intention to proceed, as speedily as possible, with a developmental project of particular concern to Upper Canada, which involved the building of communications with the Great West and extensive "improvements" in the Canadian canal system. In the resulting prosperity which was hoped for, it was believed that the Maritime Provinces would share.

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[11] E. Whelan, *The Union of the British Provinces*, (1865), p. 45. This statement may be compared with a letter by A. T. Galt, Nov. 17, 1858, to Earl Lytton, Secretary of State for the Colonies: "I do not for a moment pretend to say that Canada would use the Intercolonial Railway for her trade while shorter and cheaper lines exist, but if at any time a different trade policy were adopted by the United States or war were to break out, then she would possess another outlet and would gladly suffer any inconvenience from the greater length and enhanced charges." O. D. Skelton, *Life and Times of Sir A. T. Galt*, p. 246.

[12] Professor Creighton quotes an enthusiastic speaker in Halifax who saw that city as a place of transit comparable to Venice and Genoa because "we form the nearest point to Europe". See Appendix 2—*British North America at Confederation*, Section 8, Sir John A. Macdonald appears to have had the same idea. Writing to C. J. Brydges of the Grand Trunk Railway, Oct. 31, 1870, about prospective freight rates on the Intercolonial, he said: "It is of course the duty of the government to see that no preference of any kind is given, or possible, and that a barrel of flour arriving by water at Quebec will have just as good a chance as if it were sent by railway from Sarnia." (*Macdonald Letterbook*, No. 14, Canadian Archives). It is evident that Sir John Macdonald thought that a through rate over the Grand Trunk and the Intercolonial might be cheaper than a combined lake, river and rail rate.

[13] R. G. Trotter, *Canadian Federation*, p. 283: "Therefore if the latter [the Intercolonial] was to be built by the new General Government at the insistence of the Lower Provinces, they demanded that the improvement of western communications should also be undertaken by the same authority. The inclusion of both projects in the Quebec Resolutions was thus in a sense a means of reconciling diverse sectional interests."

George Brown, who had ardently supported western development but had questioned the utility of the Intercolonial, found himself in difficulties in the Canadian Parliament when the Quebec Resolutions were before it for approval, because the two projects were not given equal standing. While he conceded that the building of the Intercolonial had been given the preference, he declared that "the Confederation is, therefore, clearly committed to the carrying out of both these enterprises." (*Confederation Debates*, p. 103).

Cf. Appendix 2—D. G. Creighton, *British North America at Confederation.*

We are, therefore, quite unable to agree that the word "improvements" in the context in which it appears in Resolution 66, imposed upon the Dominion Government obligations to do the things set forth in the New Brunswick brief.

Meaning of the Term "Seaboard".—Nor is it possible to accord to the word "seaboard" the precise and limited significance given to it in the New Brunswick brief. By linking up canal improvements with the establishment of communications with the Northwest Territories it was hoped to prevent trade benefits resulting from the opening up of the Northwest from inuring to the sole benefit of the Erie Canal which, prior to Confederation, had captured a large proportion of the shipping traffic originating on the Great Lakes. "Seaboard," to the framers of this Resolution, meant that part of Canada in which there were ports actual or in prospect to which ocean-going ships could come to carry away the traffic which would originate in the Great West and come down the canals. Canada welcomed Confederation because it gave her an extended seaboard with all-the-year ports to which access would be given by the Intercolonial. When George Brown in the Confederation debates (February 8, 1865) spoke of the unsatisfactory position of Canada "shut off as she is from the seaboard in the winter months," he said, in effect, that during the summer Canada had her own seaboard.

At no time since the British first occupied Canada have Quebec and Montreal not been recognized officially and in current language as seaports. When in 1785 the British Government passed an Order in Council which forbade trading by sea between Canada and the United States, this was held by the governor of that time and his council to apply to Quebec and Montreal but not to the inland lakes.[14] Adam Lymburner, merchant of Montreal, appearing at the bar of the British House of Commons, March, 1791, to oppose the division of Canada into two provinces pleaded that since the only "ocean ports" were in Lower Canada the two provinces would find themselves involved in controversy.[15] The official statistics of the Department of National Revenue give the registered tonnage of sea-going traffic at Montreal as follows for these pre-Confederation years: 1865, inbound 133,286 tons, outbound 144,475; 1866, inbound 172,262, outbound, 149,719.[16] The same terminology is used today. Thus Sir Alexander Gibb in his *National Ports Survey* (1932), makes a division between inland and canal ports and seaboard ports. He states therein that there are "46 seaboard ports" in Quebec, which makes the seaboard identical with the banks of the St. Lawrence from Montreal to the mouth of the river.[17] Indeed the Government of New Brunswick itself states in its brief that Canada was without a seaboard for only a portion of the year. "Here," it says, "were provinces locked up for one-half the year without a seaboard, at the mercy of the United States for an outlet."[18] In evidence counsel for New Brunswick called this a "very careless statement,"[19] but in fact the brief of New Brunswick here used the word in exactly the sense in which it was employed by George Brown and his associates in the drafting of Resolution 69 of the Quebec Resolutions (66 of the London Resolutions).

Neither the developmental policy subsequently adopted by the new Dominion Government, nor the public utterances by Dominion statesmen about it, support the construction placed by New Brunswick on Resolution 66. In the early years of Confederation the Intercolonial was begun, a Royal Commission was appointed to advise as to a policy of canal construction, and initial steps were taken toward the building of a transcontinental railway. In his budget speech, April, 1873, S. L. Tilley, Dominion Minister of Finance, took note of these developments, and, in the spirit of optimism then prevailing, undertook to foretell the economic and national consequences. The Pacific railway was to bring the produce to the head of Lake Superior where it would be placed on ships and brought down the canals to the seaports. Montreal would become a rival of New York. Quebec would be second to Montreal in the Province. "Then," he added, "coming to my own province [New Brunswick] with perhaps limited advantages compared with Ontario and Quebec, but prepared as we shall be with the aid of the railway, we shall fight hard for our share of the shipping trade. Passing to Nova Scotia, . . . Halifax will secure her share of trade as the necessary result of the Intercolonial."[20]

Tilley, it is apparent, was unaware of the implications of Resolution 66 which New Brunswick has now urged; he made no charge that the "agreement" upon which New Brunswick had entered Confederation was not being respected. Nor is there any evidence that he had become aware of

[14] D. G. Creighton, *The Commercial Empire of the St. Lawrence, 1760-1850*, pp. 104-105.
[15] *Ibid.*, p. 115.
[16] Obtained from Dept. of National Revenue.
[17] p. 12.
[18] Brief, p. 111.
[19] Ev. p. 10,180.
[20] "Scrapbook Hansard" 1873 (Library of Parliament) p. 54.

such a breach of faith ten years later when, again as Minister of Finance, he delivered the budget speech. Speaking in Parliament, March 30, 1883, he said:—

> "Our whole policy, the policy of both Governments since 1867, has been to do everything that the means of the country would justify to afford increased facilities to the shipping coming to and going from Canadian ports. . . . These figures show that every Government, and every Parliament have been fully alive to the importance of this matter. . . . It has been the policy of the Government [the Macdonald Government] in legislating for the Canadian Pacific Railway to direct the trade of the Great West, during the summer, through Montreal and Quebec, and, during the winter, through the open ports of the Dominion."[21]

It is, perhaps, worth pointing out that Sir Leonard Tilley was a member of both the Quebec and London Conferences; that he was presumably thoroughly familiar with the history of Resolution 66 and the nature of the policies it foreshadowed; that he was Premier of the Province of New Brunswick at the time of Confederation; and that he, representing a New Brunswick constituency, entered the Dominion Government and served from 1867 to 1873 and again from 1878 to 1885.

We are thus unable to accept the contention of New Brunswick that Resolution 66 of the London Conference constituted in any sense a contract or agreement with the Maritime Provinces; or that the term "improvements" used therein implied the means of forcing trade through Maritime ports as New Brunswick contends; or that the term "seaboard" meant only the seacoast of the Maritime Provinces. But we have examined the submissions of New Brunswick carefully and, we trust, with detachment, in the hope that a complete review may not merely show why we are unable to recommend that this claim be allowed, but may also serve to remove a sense of grievance which has been long standing.

Operation of the Intercolonial Railway

The submissions regarding the operation of the Intercolonial railway may now be considered.

The complaint of New Brunswick, to which the Province attaches a good deal of importance, is that in making the Intercolonial railway a part of the government railway system the Dominion broke an understanding dating from Confederation that the road would be operated in perpetuity by the government and kept separate and distinct from all other railways.[22] The very general belief that there was a definite agreement to this end does not appear soundly based. In 1870 the question of the future control and management of the Intercolonial was discussed in Parliament as one that still awaited a decision.[23] Moreover, on October 31, 1870, Sir John A. Macdonald wrote to C. J. Brydges, who was both General Manager of the Grand Trunk and a Commissioner for building the Intercolonial, discussing the manner of operating the Intercolonial railway when finished and voicing the tentative impression that "the most satisfactory move in the public interest of working the railway" would be for the Government to make arrangements with the Grand Trunk for that purpose.[24] In the same letter Sir John expressed the opinion that if "Brown, Mackenzie and Company" were to come into power they would seek a different solution. The expectation proved well-founded; following the accession of Alexander Mackenzie to the premiership the railway was placed in 1874 under the direct control of the Department of Public Works. This arrangement was not disturbed when Sir John A. Macdonald returned to office in 1878. In 1889 he declared that "the road can only be properly kept up, and the bargain with the Maritime Provinces can only be maintained by that road being always kept up as a government work."[25] A transfer of the Intercolonial at the time of this statement could only have been made to a privately-owned road which, unless restrained by the terms of transfer, would presumably operate it on strictly commercial lines. Its merger thirty years later with other railways, also publicly-owned and under the direction of a board appointed by the Dominion Government, was an action widely different from that feared in 1889 about which Sir John Macdonald's assurance was given—an assurance of 1889, it is to be noted, and not of 1867.

The New Brunswick Government also objects to the operation of the Intercolonial railway by the Canadian National Railways on the ground that this corporation is operating "not with reference to the rights of the Maritime Provinces under the

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[21] *Debates, House of Commons*, 1883, pp. 337-38.

[22] Brief, p. 120.

[23] *Dominion Parliamentary Debates* (1870), pp. 988-1013. A motion introduced by Galt called for private construction and operation. Members of the Cabinet contended construction by the Government was required by the Imperial Intercolonial Guarantee Act, but admitted operation after construction was another matter. "After the construction", said Sir John A. Macdonald, "the government might lease—to the Grand Trunk or to the company spoken of by the hon. member for Carleton." (p. 1011).

[24] *Macdonald Letterbook*, No. 14. (Canadian Archives.)

[25] *Debates, House of Commons*, April 29, 1889, p. 1660.

Confederation system, but with the object of showing results in the same way as any private corporation." Under "the Confederation agreement," it is said, it was not intended that freight rates should be made so as to cover interest on the cost of construction or even to meet operating expenses, if this involved rates, "bearing too heavily upon the interprovincial or other trades of the Maritime Provinces". "The design of Confederation," it is stated, called for a local management of the Intercolonial with headquarters at Moncton. The present operation of the Intercolonial is described as a "commercial operation which is entirely contrary to the scheme of Confederation". This Commission was asked by New Brunswick to make recommendations "that the Dominion remove the Intercolonial from the control of the Board of Transport Commissioners and put into effect a schedule of rates based on what was designed at Confederation and not upon exclusively commercial considerations"; that facilities at the ports be extended and shipping arrangements made to encourage trade through the ports; and that some compensation be given the Province for non-fulfilment of obligations.[26]

That the rates imposed by the management of the Intercolonial in 1912, and continued for fifteen years, were wholly commercial in character is beyond question.[27] Because this was a purely commercial rate it was held by the Duncan Commission to be a violation of an understanding reached at Confederation which it described in these terms: "That to the extent that commercial considerations were subordinated to *national, imperial* and *strategic* considerations the cost would be borne by the Dominion, and not by the traffic that might pass over the line."[28] The reduction of 20 per cent which the Duncan Commission recommended would, in its view, take care of the "national, imperial and strategic considerations", leaving the adjustment of other claims to the Board of Railway Commissioners. A reasonable inference from the Duncan Commission findings is that the reduction (which was made statutory in the Maritime Freight Rates Act, 1927) would meet the obligations of Confederation leaving the adjustment of other rate matters to the system of rate control to which all the railways in Canada were subject; and we are confirmed in this deduction by the opinion of the Duncan Commission of the effect of its recommendation: "It separates completely considerations of national public policy from considerations of railway policy proper. It restores the original purposes of the Intercolonial Railway as interpreted by the freight structure prior to 1912, without withdrawing it from the consolidated system of National railways, a step which we think would be retrograde, and, in the end, very unsatisfactory."[29]

With this opinion we are in complete agreement, and we think that the criticism of the New Brunswick brief to the effect that the Intercolonial railway is now run as a "commercial operation which is entirely contrary to the scheme of Confederation" is not well founded.

National Transportation Policies and Maritime Ports

In view of the criticism, implied or express, in various submissions discussed in this chapter, that the Dominion has ignored the legitimate claims of Maritime ports to an adequate share of Dominion trade, we think it advisable to survey briefly the salient features of Dominion policies on railway construction and freight rates as they have related to the Maritime Provinces.

The construction of the Intercolonial railway promptly followed the union of the provinces in keeping with the provisions of section 145 of the British North America Act. The building of the road was entrusted to a government commission with Sandford Fleming as chief engineer. While the choice of the route, with its maximum mileage, was compelled by supposed military necessities,[30] there was confidence on the part of Fleming that through-traffic would be large from the outset which resulted in the railway being built to much higher standards than had been intended. The original estimates were $20,000,000, but the actual cost was $34,368,396.

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[26] Brief, pp. 107-121.

[27] An explanation of this increase was given to the House of Commons by Hon. Frank Cochrane, Minister of Railways, in the session of 1912-13. He said the average increase was 5 per cent but that on particular commodities it worked out higher. Some of the members placed the increase on individual commodities as high as 40 per cent, Mr. Cochrane's defence was: "I am trying to run the Intercolonial on a business basis... I am satisfied that increases in rates are necessary." *Debates, House of Commons*, 1912-13, col. 12,065.

[28] *Report of the Royal Commission on Maritime Claims*, p. 21.

[29] p. 23.

[30] A more direct route would not have been acceptable to the Imperial authorities as is made clear by a despatch from the Secretary of State for the colonies to Viscount Monck dated July 22, 1868: "...Her Majesty's Government have learned with much satisfaction that the latter" (the most northerly route) "has been selected by the Canadian government. The communication which this line affords with the Gulf of St. Lawrence at various points, and its remoteness from the American frontier, are conclusive considerations in its favour, and there can be no doubt that it is the only one which provides for the national objects involved in the undertaking." *Canada Sessional Papers*, 1869, No. 5, p. 8.

The expectation that traffic would develop on a large scale over the Intercolonial was general. There was an evident expectation that ultimately freight from the middle western states as well as from Central and Western Canada would find its way to seaports by way of the Intercolonial. Thus in 1879, when the Dominion bought the Grand Trunk section from Rivière du Loup to Point Levis and added it to the Intercolonial, it was stipulated that the sum paid, $1,500,000, was to be " devoted towards obtaining an independent railway connection from Sarnia to Chicago ".[31]

The extra mileage of the Intercolonial, due to the military considerations which determined the route, was compensated for by low freight rates. A comparison of rates on the Intercolonial with those charged by the railways in Ontario and Quebec in the eighties shows variations of 20 per cent in favour of the Maritimes in classes 1 and 2 rising to 40 per cent for classes 4 and 5; and these differentials remained fairly constant until the rates were equalized with the central rates in 1912.

In 1897 the Intercolonial was extended from Point Levis to Montreal by the purchase of existing railway lines at a cost of some seven million dollars. Hon. A. G. Blair, Minister of Railways, in justifying the extension, declared that under similar circumstances any railway company would " strain every nerve and assume every reasonable responsibility in order to relieve itself of the incubus under which it laboured, the trammels under which it was operated, and to remove the blocks which prevented it reaching a point where it might fairly undertake all the business that offered, and where it might pursue under favourable conditions the object for which the railway was established. Under existing conditions, I say the Intercolonial railway cannot be successfully operated." The lack of profit on the Intercolonial had created, he said, a prejudice in the public mind against government ownership; but the true explanation was that the Intercolonial had been " cribbed, cabined and confined ".[32] By arrangement the Grand Trunk was to turn over to the Intercolonial at Montreal a proportion of the through-traffic to be carried by the Intercolonial to Saint John or Halifax for transport to the markets of Europe.

Although the Intercolonial railway ceased to be under a management directly responsible to the Minister of Railways in November, 1918, freight rates on the Intercolonial did not come under the control of the Board of Railway Commissioners until 1923.

In implementing the Duncan Commission recommendation for a permanent differential of 20 per cent in favour of Maritime rates over those prevailing in the central section, the Dominion Parliament formally recognized by statute the right of the Maritime Provinces to this consideration because of the national, imperial and strategic conditions which controlled the building of the Intercolonial. The preamble to the Maritime Freight Rates Act relying on the finding of the Duncan Commission, defined in precise terms the part which the Intercolonial was intended and is still expected to play in the national economy: " Whereas . . . the Intercolonial Railway was designed, among other things, to give to Canada in times of national and imperial need an outlet and inlet on the Atlantic ocean and to afford to Maritime merchants, traders and manufacturers the larger markets of the whole Canadian people instead of the restricted markets of the Maritimes themselves."[33]

This outlines in brief the Dominion railway policy in furtherance of trade between the Maritimes and the rest of Canada as expressed in the construction and operation of the Intercolonial.

The " Short Line "

In the early projects for a transcontinental railway, which finally took form as the Canadian Pacific Railway, the interests of the Maritimes, it was thought, would be served equally with those of the other parts of Canada. The eastern terminus was fixed at Callander on Lake Nipissing; there the eastern system of transportation would connect with the transcontinental and as the traffic flowed eastward the Maritimes, through the operation of the Intercolonial, would get their share. When the Canadian Pacific Railway Company was chartered its eastern terminus was also fixed at Lake Nipissing; but there were further specific provisions empowering it to extend its line to Ottawa and, to obtain, hold and operate a line or lines of railways from Ottawa to any point at navigable water on the Atlantic seaboard or to any intermediate point.

[31] G. P. de T. Glazebrook, *A History of Transportation in Canada*, p. 213.

[32] *Debates, House of Commons*, June 16, 1897, col. 4258*ff*.

[33] *Statutes of Canada* (1926-27) 17 Geo. V., c. 44.

The all-Canadian purposes of the project were stressed by the Government when the arrangement was before Parliament for ratification.[34]

The failure of the hopes that traffic would flow over the Intercolonial in increasing volume was the cause of much dissatisfaction in the Maritimes. Sir Charles Tupper, in 1884, gave as the reason the excessive mileage of the Intercolonial. "The government," he said, "have been driven to the conclusion by the force of circumstances and by the practical results, that it is impossible for the ports of Saint John and Halifax to compete with the nearer ports of Portland and Boston in the United States."[35] To meet this condition he announced that the Government would, by the granting of subsidies, secure the building of a Short Line giving direct communication between Montreal and Saint John and Halifax. Then, he said, "we will have the complete realization of our hopes and expectations." The result was the building of the Short Line across the State of Maine, giving the Canadian Pacific railway direct access to the port of Saint John.

That the Canadian Pacific Railway adopted the Short Line policy under strong pressure from the Dominion Government, and under assurances from its members that the Intercolonial thereafter would be operated as a local road, leaving the through-traffic to the Canadian Pacific, is stated categorically in letters from Sir George Stephen to Sir John Macdonald in 1889.[36] Sir Charles Tupper's hope that the building of the Short Line would bring traffic to the Maritime ports in volume sufficient to meet expectations was not realized; and following a change in government the Intercolonial again became the agency by which it was expected trade between Canada and the Maritime ports would be enlarged. Means to this end were supplied by the extension in 1897 of the Intercolonial railway to Montreal, as already noted.

The National Transcontinental

Just six years later the Dominion Government was proclaiming that both the Intercolonial and the Short Line had failed to promote trade through Maritime ports. When the Grand Trunk sought public assistance to extend its system from North Bay into the Prairie West, the Government found in the scheme the opportunity for constructing, in conjunction with the Grand Trunk, a second transcontinental railway whose eastern terminus would be in the Maritime Provinces. Sir Wilfrid Laurier, submitting the new transcontinental policy to the House of Commons, July 30, 1903, found both the Intercolonial and the Short Line inadequate as suppliers of traffic for the Maritime ports. Replying to the Opposition's contention that Quebec should be the eastern terminal, which implied that western all-rail traffic would be transferred at that point, he rejected the contention that the Intercolonial had been built to serve as a carrier of traffic originating in the Central Provinces or brought to that region by the opening of communications with the Great West. Speaking in the House of Commons, Sir Wilfrid said: "The answer which we have to make to this objection is plain, obvious, categorical, peremptory and paramount; the answer is that the Intercolonial never was intended and never was conceived and never was built for transcontinental traffic. The Intercolonial was first conceived as a military road. It was built and located for political reasons, . . ."[37] Having dismissed the Intercolonial as a suitable road for the movement of traffic from the West through Canadian ports, Sir Wilfrid went on to say that the Short Line was likewise unsatisfactory because it passed through United States territory. The Transcontinental, he predicted, would achieve the purpose which he

[34] Thus Sir John A. Macdonald (*Debates, House of Commons*, 1881, p. 493) said: "We desire, the country desires, that the road, when built, should be a Canadian road; the main channel for Canadian traffic for the carriage of the treasures and traffic of the west to the seaboard through Canada." There was a further desire to "build up Montreal, Quebec, Toronto, Halifax and Saint John by means of one great Canadian line, carrying as much traffic as possible by the course of trade through our own country."

Sir Leonard Tilley, speaking in the same debate (p. 527) said the Government "desired that when the millions of acres in the Northwest were settled, the products of that country should be brought down to Montreal, Quebec, Halifax, Saint John or Toronto...through Canadian territory."

The fact that Sir John Macdonald at one time considered Quebec City as the right terminus for the Canadian Pacific is not generally known; at Quebec, of course, it would be easy to transfer freight to the Intercolonial. The statement indicating Quebec as the proper terminus was made in Parliament when Sir John defended the action of the Government in paying retroactively subsidies to the Quebec Government for the construction of railways from Ottawa to Montreal and from Montreal to Quebec. Upon that occasion Sir John recalled that when the original project of building the Canadian Pacific had been initiated, Callander had been selected as the eastern terminus, but that subsequently the Mackenzie Government had extended the line "to Pembroke, and in fact to Ottawa." He added: "Then, Sir, from that moment I saw, and everybody of common sense must have seen, that Quebec had, with unwonted energy, finished a railway from the City of Quebec, which everybody admitted must be eventually the Atlantic terminus of the Canadian Pacific Railway; that Quebec, taking time by the forelock, in order to give to their province an immediate connection with the Far North-West, pledging their fortune and pledging their credit to complete the road, I foresaw... that the road they were constructing must form a portion of the great national highway and be aided like the rest." *Debates, House of Commons*, 1884, p. 1565.

[35] *Debates, House of Commons*, 1884, p. 1480.

[36] Stephen wrote (Sept. 3, 1889) " . . . Tupper and Pope repeatedly said, by way of inducement to undertake the work, that, on the opening of the Short Line, the I.C.R. would be run as a local road, that the through business would all come over the Short Line, that the I.C.R. worked as a local road, would be just as useful to the people of the country traversed by it..." As quoted by Glazebrook, *A History of Transportation in Canada*, p. 297. For further correspondence see Pope, *Correspondence of Sir John Macdonald*, pp. 454-57.

stated categorically: "Our intention has been . . . to force traffic in Canadian channels and through Canadian waters."[38] Hence the necessity for the Quebec-Moncton section of the National Transcontinental.

These purposes were set out with precision and detail in the legislation embodying the Grand Trunk Pacific Agreement.[39]

In keeping with the agreement with the Grand Trunk Pacific the National Transcontinental railway from Winnipeg to Moncton was built to the highest standard. No expense was spared in building this road to provide the cheapest and most efficient means of carrying the wheat of the Northwest to the Canadian seaboard. Estimates were made at the time the Transcontinental enterprise was launched that it would be possible to carry wheat profitably from Armstrong (equivalent to the Head of the Lakes) to Quebec for 6 cents per bushel. Once again the old belief was revived that, given a road bed and equipment of the highest standard, an all-rail rate could be set that would compete with the lake-and-rail rate. There is much to support the view that it was this faith that underlay the whole project of the National Transcontinental. Its chief objective was the delivery to Canadian ports, for export, of Canadian wheat.

The project of a transcontinental railway operated by the Grand Trunk Pacific under an agreement with the Dominion Government disappeared in April, 1915, when the Grand Trunk Pacific refused to lease the line from Winnipeg to Moncton on the ground that it had not been completed in accordance with the agreement, the estimated cost of $61,415,000 having been increased to $159,881,197. The National Transcontinental line was thus left in the hands of the Dominion Government and became, on February 1, 1915, part of the Canadian Government Railways.[40] Later all the railways that came into the hands of the government, together with the Intercolonial, were consolidated and given the name of the Canadian National Railways.

It is now apparent that the purposes, so clearly avowed, and implemented by this vast outlay of money, have been attained only in relatively slight measure. The reason for this comparative failure is a proper subject for examination by all parties affected or interested; but from this survey, it seems to us there might fairly be excluded the presumption of indifference or hostility on the part of the residents of other parts of Canada to the fulfilment of the hopes which inspired the building of the National Transcontinental.

Controversy Over Freight Rates

The failure of the National Transcontinental to act as a vast grain-spout through which western wheat would flow to Quebec and the Maritime ports focused attention for a number of years on the freight rates over the line by the Board of Railway Commissioners, the courts and the Dominion Government.

When the railway was opened for traffic in 1916, a special rate of 6 cents a bushel from Armstrong to Quebec was set.[41] But, in the following year, the management which was directly responsible to the Government, raised the rate to 34·5 cents per hundred pounds (35·5 cents to Maritime ports). This rate proved to be prohibitive. In 1925-26 when the Government ordered the Board of Railway Commissioners to carry out a general inquiry into freight rates, emphasizing the importance of "encouraging to the fullest extent the movement of Canadian grain and other products through Canadian ports" the Quebec Harbour Board, supported by the Governments of the Maritime and Western Provinces,[42] asked that the rate from Armstrong to Quebec be adjusted to the statutory Crowsnest Pass rates for the West.

The application of the Quebec Harbour Board succeeded, and the grain rate was cut from 34·5 cents per hundred pounds to 18·34 cents—the

[37] *Debates, House of Commons,* 1903, col. 7,660.

[38] *Ibid.,* col. 7,694.

[39] The principal provision in this agreement was: "The aid herein provided for is granted by the Government of Canada for the express purpose of encouraging the development of Canadian trade and the transportation of goods through Canadian channels. The company accepts the aid on these conditions, and agrees that all freight originating on the line of the railway, or its branches, not specifically routed otherwise by the shipper, shall, when destined for points in Canada, be carried entirely on Canadian territory, or between Canadian inland ports, and that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports, and that all such traffic, not specifically routed otherwise by the shipper, shall be carried to Canadian ocean ports." *Statutes of Canada,* (1903) 3 Ed. VII, c. 71, sec. 42.

[40] The cost of the National Transcontinental up to March 31, 1926, was $169,294,876 and $21,706,664 for the Quebec bridge. This does not include $129,972,139 advanced to the Grand Trunk Pacific Company. *Annual Report,* Dept. Railways and Canals, 1925-26, p. 82. See also Fournier: *Railway Nationalization in Canada,* p. 26.

[41] According to statements made in numerous later representations to the Government (as for instance in a memorial presented to Rt. Hon. R. B. Bennett, Prime Minister of Canada, April 13, 1932, by the Conservative Members of Parliament from the Maritime Provinces) this rate had been described in Parliament by the Minister of Railways as profitable, but no reference to *Hansard* was given in these memorials, and a diligent search of the speeches in Parliament has failed to disclose any such statement.

[42] The Maritime Provinces later withdrew in view of the passage of the Maritime Freight Rates Act.

Crowsnest Pass rate. There was at that time, as there still is, a rate of 1 cent per hundred pounds from Montreal or Quebec to Saint John or Halifax on grain coming by rail from Georgian Bay ports, and the application of the Quebec Harbour Board had been made on the assumption (shared by the Governments of the Maritime Provinces) that this 1 cent rate would also apply to grain coming all-rail from Armstrong or Port Arthur. But, after an unsuccessful appeal to the Supreme Court against the ruling of the Board of Railway Commissioners which had applied the Crowsnest Pass rates to Armstrong-Quebec grain traffic, the Canadian National refused to extend to this traffic the 1 cent rate from Quebec to the Maritime ports. Instead, by adding to the rate from Quebec to Saint John and Halifax the reduction it had been ordered to make between Armstrong and Quebec, it left the through-rate from the West to the Maritime ports the same as it had been before the ruling of the Board.[43]

In an effort to retrieve this defeat, the Halifax Harbour Board, supported by the Maritime Board of Trade, appealed to the Board of Railway Commissioners, asking that the 1 cent rate between Quebec and the Maritime ports be applied to shipments from the West. The real point at issue was whether or not the agreement of 1903 entered into by the Government and the Grand Trunk Pacific called for an all-rail rate to the Maritimes which would not merely meet the all-rail rate to competing American ports, but would also meet the lake-and-rail rate to these ports if this were lower. The Board divided on the application, and the appeal failed.[45] The rate from Armstrong to the Maritime ports has fluctuated to meet competitive conditions, but has remained well above the figure which the Quebec Harbour Board sought to obtain in 1926. As at December 9, 1938, the rate was 26½ cents.

An appeal was taken from the decision of the Board to the Governor in Council and heard January 15, 1932. Supporting it were the Halifax Harbour Commission and the Maritime Board of Trade Transportation Commission; and opposed to it were the Canadian National Railways, the Canadian Pacific Railway and the National Millers Association. Subsequently a petition signed by a number of Members of Parliament and Senators from the Maritime Provinces was presented to the Prime Minister objecting to the case being returned to the Board of Railway Commissioners for reconsideration; the Government was asked to "declare its policy" and "render a final decision". It does not appear from the records that have been consulted that any finding was made on the appeal by the Dominion Government.[46]

It is apparent from what has been said here that transportation facilities have been supplied in ample measure to look after a much larger traffic. It is also established that the engagement as to parity of grain rates to American and Maritime ports has been respected if the engagement is held to apply only to rates of the same type. All-rail rates from Armstrong to Saint John and Halifax are on a parity with similar rates from Duluth to New York and other American ports. Efforts to have the all-rail route to the Canadian ports lowered to the level of lake-and-rail rates to the Atlantic ports have failed to secure authorization from either the Board of Railway Commissioners or the Governor in Council; and it appears from the record that the reason for this refusal was an acceptance of the argument advanced by the railways that this rate would be met by the competing American railways, thus leaving matters unchanged so far as the movement of grain would be concerned. The fact must be accepted that, with free competition and parity of rates, only a proportion of Canadian wheat exports will go via the Maritime ports. The defeat in one essential respect of the greatest rail-

[43] Quebec retained the advantage of the lowered rate from Armstrong ordered by the Board but it has been of little value to the port as the rate, low as it is, cannot meet the lake-and-canal rate while that is in operation, and the period between the freezing-up of the lakes and canals and the closing of the St. Lawrence is too brief to permit any considerable movement of grain through the port of Quebec. From the crop year 1927-28 to 1937-38 (inclusive) total rail receipts of grain at Quebec (including some which came by other lines than the National Transcontinental) have been less than 5,400,000 bushels.

[45] The decision was rendered on October 28, 1930. Chief Commissioner McKeown and Commissioner Norris were of the opinion that Parliament had intended in 1903 that the rate over the Transcontinental should meet all competing rates; they therefore held that the 35·5 cent rate from Armstrong to Saint John and Halifax which matched the all-rail rate from Duluth to New York should be reduced to 19·34 cents to meet the lake-and-rail rate from Fort William to New York. Commissioners McLean and Lawrence would not grant the appeal but were ready to allow a proportionate extension of the Armstrong-Quebec rate which would have given a rate of 27·5 cents to Saint John and 30·5 cents to Halifax. Deputy Chief Commissioner Vien and Commissioner Stoneman thought that the parity of all-rail rates on Canadian and American lines was all that could be given, as any reduction in these rates would immediately be met by American carriers and no diversion of traffic to Canadian channels would result. Because of these conflicting opinions, the existing rate was undisturbed.

[46] The last public reference to the appeal appears to be that made by the Minister of Railways (Hon. R. J. Manion) in the House of Commons, February 10, 1933 (*Debates*, pp. 2011-12) in which he said that he had been "informed, though quite unofficially, that the present arrangements were altogether satisfactory to those who were asking for the appeal to be disposed of."

way venture upon which the Dominion ever embarked is the result of the economic impossibility of maintaining lower rates for grain than those offered by competing American transportation systems.

In this connection, the conclusion of the Duncan Commission which examined the problem at length should be noted:—

"We do not feel, however, that we would be exhausting our own Terms of Reference, if we did not take some notice of what we believe to be serious misapprehension in the public mind in the Maritime Provinces as to the proximate cause of the difficulties in the way of development at Halifax and Saint John.

Over a series of years, the merchanting of the grain crops of the West in the markets of the world has been built up on a delicate mechanism which cannot be suddenly or violently disturbed without creating chaos, and even disaster. The routing has been determined not by reference to railway haul entirely but by the need for concentrating the grain at a key position which commands a range of ports where—because of the quantity and variety of ocean tonnage available—the shipper can be sure of finding cargo space within the shortest possible time for the quantity and destination of his shipment, at any given moment." (p.28.)

. . . .

"We think the beneficial reaction arising to the trading and commercial interests of the Maritime Provinces by reason of grain and other products passing through their ports has been much exaggerated, although grain exports may be of considerable value as basic cargo when other freight is also available. In the character of modern shipping, there would be very definite limitations to port development based only on traffic that was, as it were, merely piloted through a given channel." (p. 29.)

In conclusion, we have not found that any contractual, or quasi-contractual rights of the Maritime Provinces in the matter of Dominion transportation policy have been violated. Nor can the Dominion be fairly accused of having ignored the legitimate claims of the Maritime Provinces to the use of their ports for the external trade of the Dominion. As the record indicates, the people of Canada have made substantial sacrifices to divert trade through Maritime ports, and we do not consider that any compensation should be allowed for the failure of bona fide attempts to build up this trade. The fact is, with the development of the large steamship and the growth of great ports elsewhere on the Atlantic coast, the economics of transportation have weighed heavily against the ports of the Maritime Provinces. But the fullest possible utilization of the ports of the Maritime Provinces consistent with the general welfare of the Canadian economy must remain in the future (as we are convinced that it has been in the past) a prime objective of Canadian policy. The people and Governments of the Maritime Provinces will naturally seek, through whatever agencies seem best to them, such a direction of Dominion transportation policies as in their judgment is calculated to assist in the well-being of the Maritimes; just as the people and governments of other provinces will be alert to safeguard their own interests. The Commission is not concerned so much with the merits of the resultant policies as with the effect which they may have on the fiscal needs of the various provincial governments and the financial recommendations which are made elsewhere are designed to meet whatever situation may arise in the future in respect of these needs.

Chapter VI

OTHER NEW BRUNSWICK CLAIMS

Two further claims were presented to us in our New Brunswick hearings, both requesting compensation from the Dominion.

The Halifax Award

The Government of the Province of New Brunswick in the brief[1] presented at the Commission's hearings in Fredericton and again in its supplementary submission[2] in Ottawa advanced a claim for a share of the Halifax Award made in 1877 under the provisions of the Treaty of Washington, 1871. These dates indicate that the claim arises from events which occurred many years ago and, as it was suggested[3] that the claim for approximately $1,000,000 in 1877 should bear interest, the amount involved in this claim, as estimated by New Brunswick, is nearly $15,000,000.

The basis of the claim may be stated briefly. The Treaty of Washington, 1871, between Great Britain and the United States of America contained several provisions relating to fishing privileges on the Atlantic Coast. By Article XVIII Great Britain agreed to give to fishermen of the United States, in addition to the privileges accorded to them by the Convention of 1818, the additional liberty to—

> "take fish of every kind, except shell-fish, on the sea-coasts and shores and in the bays, harbours, and creeks of the Provinces of Quebec, Nova Scotia and New Brunswick, and the Colony of Prince Edward Island, and of the several islands thereunto adjacent without being restricted to any distance from the shore, with permission to land upon the said coasts, and shores, and islands, and also upon the Magdalen Islands, for the purpose of drying their nets, and curing their fish; provided that, in so doing, they do not interfere with rights of private property, or with British fishermen, in the peaceable use of any part of the said coasts in their occupancy for the same purpose."

The right of British fishermen to the salmon and shell fisheries, and to all other fisheries in the rivers and mouths of rivers, was expressly reserved. Similar rights were given by Article XIX to British subjects in American waters, and provision was made by Article XXXII for the extension of the Treaty to Newfoundland. In Article XXII provision was made for the determination by arbitration of the "amount of any compensation which, in their opinion, ought to be paid by the Government of the United States to the Government of Her Britannic Majesty in return for the privileges accorded to the citizens of the United States under Article XVIII," having regard to the privileges accorded to British subjects by Articles XIX and XXI. Necessary legislation to implement the Treaty was passed not only by the British Parliament and the American Congress, but also by the Parliament of Canada and by the Legislatures of Prince Edward Island and Newfoundland. The provisions of the Treaty dealing with fisheries became effective on 1st July, 1873 (except as applicable to Newfoundland where they became effective on 1st June, 1874).

The three commissioners appointed pursuant to the Treaty met in Halifax in the summer of 1877 for the purpose of determining the compensation payable to Great Britain in accordance with the provisions of Article XXII. By a majority they awarded to Great Britain the sum of $5,500,000. After deducting costs and expenses Great Britain paid $1,000,000 to Newfoundland and the balance of $4,490,882.64 including interest, to Canada, and this sum was by Canada paid into the Consolidated Revenue Fund.

Shortly after receipt by Canada of this amount representations were made by the Maritime Members of Parliament and the Governments of the three Maritime Provinces that Canada's share in the award moneys should be paid to the fishermen or to the governments of the respective provinces, but the Dominion took the position that the moneys belonged to Canada to be disposed of as Parliament might determine. Pressure from the Maritime Provinces continued from 1879 to 1882 and late in the parliamentary session of the latter year provision was made by Parliament[4] for payment of bonuses amounting to $150,000 a year to fishermen and owners of fishing vessels. In 1891 the amount

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[1] Brief of N.B., pp. 65-69. See also Ev. pp. 8749-79.
[2] Ex. 413.
[3] Ev. pp. 8753-54.
[4] *Statutes of Canada* (1882), 45 Vict. c. 18.

appropriated for bonuses was increased to $160,000[5] and that sum has been paid yearly since that date. The payments of bonuses up to and including the year 1936 totalled $8,708,283, of which New Brunswick fishermen have received $935,145.[6]

Prince Edward Island, which was a separate colony when the Treaty of Washington was signed, had become a province of Canada when the fisheries articles came into operation on July 1, 1873. When the award was made Prince Edward Island claimed treatment similar to that accorded to Newfoundland. This was refused because during the period covered by the award Prince Edward Island was a province of Canada.

Since 1882 no serious attempt has been made by the Maritime Provinces to assert a claim to the award moneys. It was stated by counsel for New Brunswick that such a claim had never before been made to a commission, and in particular that it had not been made to the Duncan and White Commissions,[7] although at least the former of these commissions had ample power to deal with such a claim. The Province of New Brunswick alone among the Maritime Provinces advanced before us the claim that "the amount paid to Ottawa as a result of the Halifax Award does not properly belong to Ottawa but to those provinces whose shore fishing rights were involved in the Treaty of Washington". It asked that "the net capital amount, with accrued interest, should be distributed to the provinces directly concerned" and retained by them "as a trust to promote the interests of the fishermen".[8] It was suggested in evidence that the present value of New Brunswick's claim was approximately $15,000,000.[9] At a subsequent hearing in Ottawa an elaborate argument on a new footing was made in support of this claim.[10] It was argued that the provinces alone had legislative power to grant or withhold the liberty of drying nets and curing fish on the shore above high water mark, and, as the Treaty accorded these privileges to fishermen of the United States, New Brunswick should be compensated for this invasion of her rights.

No question can arise as to the power of Great Britain to enter into the Treaty of Washington, or the power of the Imperial Parliament to implement the Treaty. In addition to the Imperial legislation Canada, Prince Edward Island and Newfoundland were requested to pass, and actually enacted, the necessary legislation to implement the provisions of the Treaty within their respective jurisdictions. By the express terms of the Treaty (Article XXII) the amount of the award was to be paid to the "Government of Her Britannic Majesty". We think it is beyond question that the Imperial Government was free to use the amount of the award in its uncontrolled discretion, and in the exercise of that discretion it saw fit to pay $1,000,000 to Newfoundland and the balance to Canada, in both cases unconditionally, free from any trust or direction as to the uses to be made of the moneys. It was argued by counsel for New Brunswick[11] that the moneys thus paid to the Dominion Government constituted a trust fund, but we are unable to find any evidence of the creation of a trust nor is it possible to discover who would be the beneficiaries of it. In the New Brunswick submission it is indeed not contended that the Province has a beneficial interest in the amount claimed, and it is difficult to understand upon what basis the Province can establish a right to be constituted the trustee of a fund held by someone else.

It was suggested in argument that the Dominion's right to retain the share of the award transmitted to it by the British Government could not be based upon any proprietary right of the Dominion in the fisheries as a decision of the Privy Council in 1898 denied the existence of such a proprietary right.[12] It was argued further that the Dominion is not entitled to this money because of its responsibility for the regulation of fisheries, as this is a responsibility specifically imposed by the British North America Act for which the Dominion is not entitled to receive financial assistance.[13] In view of the fact that the payment by Great Britain to Canada was made without conditions, it appears to us that it is not for the Dominion to establish its right to retain this fund, but rather it is for the Province which asserts a claim to establish its right to receive a portion of it. There has been great delay in asserting the claim by the Province of New Brunswick, but we are unwilling to dispose of it on the ground of lapse of time alone.

In the submission at Fredericton the Province based its claim on the suggestion that its "shore fishing rights were involved in the Treaty of Washington".[14] No precise explanation of this suggestion was given, but if it was intended to imply

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[5] *Statutes of Canada* (1891), 54-55 Vict. c. 42.
[6] Brief, p. 67.
[7] Ev. p. 8765.
[8] Brief, pp. 67-68.
[9] Ev. pp. 8753-54.
[10] Supplementary brief.
[11] Ev. p. 8752.
[12] *Attorney-General of Canada* v. *Attorneys-General of Ontario, Quebec and Nova Scotia* [1898], A.C. 700.
[13] Ev. pp. 8754-62.
[14] Brief, p. 67.

that there was a provincial power to regulate shore fishing rights, there is an obvious error as the regulation of fishing is under exclusive Dominion jurisdiction. It is probable that the suggestion refers to the use of the shore for fishing purposes, such as the right to dry nets and cure fish on the shore; this matter was discussed at great length at the supplementary hearing at Ottawa.[15] It was argued that a portion of the award should be given to the provinces concerned because their jurisdiction to regulate the drying of nets and curing of fish on the shore had been invaded by the provisions of the Treaty. It appears that New Brunswick has never in fact sought to regulate these matters, and the Treaty did not, therefore, interfere with the operation of any existing provincial regulations. Moreover, it is extremely doubtful whether the rights to land on the shore for the purpose of drying nets and curing fish were at the time of the Treaty of any real value. The matter was mentioned in the brief filed by Great Britain before the Halifax Fisheries Commission but little evidence concerning it was given, and the subject was entirely ignored in the concluding argument of counsel for Great Britain. Counsel for the United States argued that the concession was of no value, and that the practice of using the shore for drying nets and curing fish "belonged to the primitive usages of a bygone generation";[16] these statements went unchallenged by opposing counsel. If these rights were of little value to the fishermen to whom they were granted, it follows that the damages done by the infringement of the provincial right to regulate must have been infinitesimal.

We cannot find that, upon any of the grounds argued by the Province, any claim as of right against the Dominion has been established. In so far as the provincial claim is based upon a plea for justice and fair dealing we feel that the Dominion by its bounty system has compensated those who suffered loss by the grant under the Treaty of fishing privileges to the American fishermen, namely, the Canadian fishermen with whom the fishermen of the United States came into competition and, therefore, that the Province of New Brunswick has no claim in equity. Although there is nothing to show any direct connection between the fishing bonuses and the moneys received by the Dominion from the Halifax Award, the amount of the bonuses is approximately equivalent to interest on these moneys at a rate of slightly over 3½ per cent.

We are of the opinion that the Dominion, because of its jurisdiction to regulate fisheries, is in a position to administer these bonuses. Yet they have given rise to some dissatisfaction. A subsidiary argument was advanced by New Brunswick in which it was alleged that the distribution of the fishing bonus (which New Brunswick contends bears no connection with the Halifax Award) was inequitable as New Brunswick fishermen received only 10·7 per cent of the bonus although they produced 26·1 per cent of the fish products of the Maritime Provinces and Quebec.[17] This is a claim that a Dominion statute, clearly within the competence of the Dominion Parliament, dividing a sum of money among fishermen in different provinces, gave New Brunswick fishermen too little and other fishermen too much. It is thus a claim based on the alleged unfairness of Dominion policy as between fishermen of different provinces, and as such is not within our terms of reference.

Compensation for Excess Freight Rates 1912-1927

The Province of New Brunswick addressed to us a claim for compensation for loss caused to the people of the Province by the excessive freight rates on the railways in the Maritime Provinces between 1912 and 1927.[18] It was submitted by counsel on behalf of the Provincial Government that in this instance it was acting in the interests of shippers who had sustained loss, and that any moneys paid under the claim would be held in trust and distributed to the proper parties if they could be found.[19]

The Duncan Commission[20] found that freight rates after 1912, when they had been raised, were excessively high and that such rates placed upon

[15] Supplementary brief. Ev. p. 10,153*ff*.

[16] In concluding the argument for the United States, Hon. Dwight Foster referred to the matter as follows: "If it was proved that the fishermen of the United States did use privileges of this kind under the provisions of the Treaty of Washington, to a greater extent than before, I hardly think you would be able to find a current coin of the realm sufficiently small in which to estimate compensation for such a concession. But, in point of fact, the thing is not done; there is no evidence that it is done. On the contrary, the evidence is that this practice belonged to the primitive usages of a bygone generation. Seventy, sixty, perhaps fifty, years ago, when a little fishing vessel left Massachusetts Bay, it would sail to Newfoundland, and after catching a few fish, the skipper would moor his craft near the shore, land in a boat and dry the fish on the rocks; and when he had collected a fare of fish, and filled his vessel, he would either return back home, or, quite as frequently, would sail on a commercial voyage to some foreign country, where he would dispose of the fish and take in a return cargo. But nothing of that sort has happened within the memory of any living man. It is something wholly disused; of no value whatever." *Record of Proceedings of the Halifax Fisheries Commission*, (1877), p. 216.

[17] Brief, p. 68.

[18] Brief of N.B., pp. 57-59.

[19] Ev. p. 8802.

[20] Ex. 142. Report of the Royal Commission on Maritime Claims.

the traffic a burden which was never intended it should bear. The Duncan Commission found that, owing to excessive mileage on the Intercolonial railway alleged to be due to military and strategic reasons, a 20 per cent differential from rates in Central Canada should be allowed on traffic which originated or terminated at Maritime points. The findings of that Commission as to freight rates were subsequently implemented by the Maritime Freight Rates Act[21] (1927) and the recommendation that a 20 per cent differential should be allowed, the cost of which was to be borne by the Dominion, was put into effect. The Province of New Brunswick claimed that the preamble to the Maritime Freight Rates Act amounted to a parliamentary declaration that the rates charged for freight after 1912 were excessive and unwarranted.[22]

Elsewhere in this Report[23] we have discussed at some length the validity of the contention that a claim as of right lies against the federal authority on behalf of a province for compensation for the adverse effects of federal policies upon a province or its people. For the reasons there set forth we have reached the conclusion that such claims are inadmissible. The claim by the New Brunswick Government which we are now examining would seem to come within this category. The action complained of was taken by the Intercolonial Railway, an agent of the Dominion Government.

[21] *Statutes of Canada* (1926-27), 17 Geo. V. c. 44.
[22] Brief, p. 58.
[23] See Sect. F, Ch. I.

While it may be argued that the Duncan Commission found that freight rates after 1912 were higher than it was ever intended the traffic should bear, and that the preamble to the Maritime Freight Rates Act admits this finding, it cannot be said that any contractual obligation to maintain rates at the differential applicable before 1912 ever existed. Intentions with respect to freight rates in so far as they had been declared, were declared solely as a matter of public policy, and these declarations never assumed the character of a contract. We are unable to see how this claim of New Brunswick differs in any substantial way from claims for compensation for adverse effects of the customs tariff or of federal monetary policy which we have elsewhere held invalid. We, therefore, conclude that this claim of the Province of New Brunswick should not be allowed.

Although we have denied both claims discussed in this chapter we wish to repeat what we have said previously, that claims of this sort whatever their merits have by and large indicated real fiscal need in the claimant province. This, we think, is particularly apropos of the claims discussed in this chapter. We have noted in our financial section that New Brunswick is in a difficult financial and economic position, and we have recommended changes in financial relations with the Dominion which take account of the Province's real fiscal need. Thus, while we have disallowed the claims on their merits, we have not been blind to the condition of need under which the Province labours.

Chapter VII

PRINCE EDWARD ISLAND CLAIMS

Two claims arising from the agreement of Confederation were presented to us in our Prince Edward Island hearings. As we have already said several times in this section of our Report, claims of this sort have often been evidence of real fiscal need on the part of the claimant province, whatever the merits of the claims themselves. In our general financial proposals we have attempted to assess the real fiscal needs of the Province and to take account of them in recommending new financial arrangements between the Province and the Dominion. We have thus attempted in a direct and more complete way to meet the fiscal needs of the Province than could possibly be done by the old method of presenting claims against the Dominion. Having done this we think that the claims presented by the Province should be examined on their merits in order that no outstanding grievance should remain unanswered and thus continue to trouble relations between the Province and the Dominion.

Continuous Communication with the Mainland

A claim was presented to the Commission at its hearings at Charlottetown by the Board of Trade[1] of that city concerning the alleged failure of the Dominion to implement its obligation to provide continuous communication between Prince Edward Island and the mainland. The difficulties of transportation from the Island were also stressed in the brief of the Transportation Commission of the Maritime Board of Trade.[2] To both of these submissions the Government of Prince Edward Island gave its support and approval,[3] and, therefore, while this claim was not put forward expressly by the Provincial Government, we feel it is desirable to express our opinions concerning it.

By the Order in Council of June 26, 1873, under which Prince Edward Island entered Confederation, it was provided that the Dominion should assume the cost of an "Efficient Steam Service for the conveyance of mails and passengers, to be established and maintained between the Island and the mainland of the Dominion, Winter and Summer, thus placing the Island in continuous communication with the Intercolonial Railway and the railway system of the Dominion." This provision has been the basis of a number of complaints by the Province against the Dominion. In the brief submitted to this Commission by the Charlottetown Board of Trade a complaint was made about the failure to provide connections with the afternoon train from Montreal during the winter months, although it was admitted that a ferry service each week-day was provided. Protest was also made because of the fact that the ferry service did not operate on Sundays. It was admitted, however, that these alleged deficiencies in service were in large measure made up by an airplane service operated by Canadian Airways Limited and subsidized by the Post Office Department.

It may be noted that, in 1901, following complaints by the Island of the Dominion's failure to provide continuous communication with the mainland, an additional annual subsidy of $30,000 per year was paid and accepted by the Island as compensation for deficiencies in communication service with the mainland between 1873 and 1888. The statute providing for this subsidy stipulated that "such allowance to be paid and accepted in full settlement of all claims of the said province against the Dominion of Canada on account of alleged non-fulfilment of the terms of union between the Dominion and the said province as respects the maintenance of efficient steam communication between the Island and the mainland."[4] This special subsidy of $30,000 is still being paid and any claim for deficiencies in communication must depend upon events subsequent to 1901.

In the brief of the Transportation Commission of the Maritime Board of Trade it was suggested that the practicability of tunnel communication between the Island and the mainland should be taken into consideration. In evidence, however, the representative of the Board of Trade who presented the brief admitted that the cost of such a tunnel would involve a large sum of money. Because of the enormous cost of such a project, we cannot think

[1] Ex. 160; Ev. pp. 4375-79.
[2] Ex. 366, p. 20; Ev. pp. 8889-92.
[3] Ev. p. 4327; Brief of P.E.I. pp. 46-47.

that a tunnel is a practical solution of the Island's difficulties of communication, nor do we think that the Island is entitled to demand from the Dominion this type of continuous communication.

A similar claim that the Dominion has failed to provide continuous communication with the Island was apparently made to the Duncan Commission, which recommended that the matter should be considered "from the point of view of placing at the disposal of the Island such satisfactory means of communication as will ensure as regular and complete a service as can reasonably be made".[5] Following this recommendation the ferry service to Cape Tormentine was considerably improved and a daily air service between Charlottetown and Moncton was inaugurated. In addition to this there is the summer ferry service between Charlottetown and Pictou for which we understand an improved service by Wood's Island, providing especially for the carriage of motor vehicles, will be substituted beginning in 1940.

Upon consideration of the whole matter we find that the Dominion has not failed, and is not failing, to discharge its obligations under the terms of union, and that there is no basis today for a claim by the Province on this ground. A reasonable ferry service has been provided and reasonable improvements have been instituted from time to time.

Cancellation of Land Purchase Loan

The Province of Prince Edward Island asked[6] that we should recommend the cancellation by the Dominion of a loan of $782,402.33 provided for the Province at the time of its entry into Confederation. This loan was made to allow the Province to settle a serious land question which, for many years before Confederation, had created unrest and difficulty in the Island.

In 1767 most of the lands on the Island were distributed by lot to a number of persons in Great Britain who had real or imaginary claims against the Crown. These absentee landlords leased their holdings, often at high rentals, to tenants on the Island and in most cases refused to sell their holdings to those who were eager to buy and own the lands upon which they lived. From the facts disclosed in evidence at our hearings in Charlottetown it is quite clear that this system of land tenure produced great discontent and unrest. A "Tenant League" was formed and frequent riots took place.[7] The Government of the Island sought to assist the tenants in buying the lands held by absentee landlords and at the time of entry into Confederation had succeeded in purchasing about three-fifths of such holdings. Some provision for assistance in completing this transaction was made a condition of the Island's entry into the union, both in the discussions at the Quebec Conference and in the subsequent negotiations leading to the union in 1873. The Order in Council admitting Prince Edward Island into the union dated 26th June, 1873, contains the following clause:—

> "That as the Government of Prince Edward Island holds no lands from the Crown, and consequently enjoys no revenue from that source for the construction and maintenance of local works, the Dominion Government shall pay by half-yearly instalments, in advance, to the Government of Prince Edward Island, forty-five thousand dollars per annum, less interest at five per centum per annum, upon any sum not exceeding eight hundred thousand dollars which the Dominion Government may advance to the Prince Edward Island Government for the purchase of lands now held by large proprietors."

Advances were made under this clause to the Island totalling $782,402.33 and interest on this sum amounting to $39,120.10 annually was deducted from the land subsidy payment to the Province. The advances were used to purchase the holdings of the absentee landlords, and these holdings were resold principally to tenants in occupation of the lands.[8] It appears that the purchase payments received by the Provincial Government for a number of years after 1873 did no more than provide the interest payments due by the Province on the loan from the Dominion,[9] and in later years, as purchase payments were completed, the annual receipts of the Province dwindled to nothing. The advances from the Dominion were accordingly never repaid, and the Province, in effect, lost most of the $45,000 subsidy in lieu of land. Had the lands been resold on terms which would have provided for reimbursement of the expenditure of the Province plus interest on deferred payments, it seems clear that the loan from the Dominion could have been repaid and the Province could then have received its full subsidy given in lieu of public lands.

We do not think this is a matter on which any finding in favour of the Province based on legal grounds could now be made. An argument on the subject of the land purchases was addressed to both

[4] *Statutes of Canada*, (1901) 1 Ed. VII, c. 3.
[5] *Report of the Royal Commission on Maritime Claims*, pp. 27-28
[6] Brief of P.E.I., pp. 53-54.
[7] Ev. pp. 4416-20.
[8] Ev. p. 4551.
[9] Ev. p. 4415.

the Duncan and White Commissions. The Duncan Commission in its report dealt with this claim as follows:—

> "The claim is, of course, a very belated one, but it is advanced, as we understand it, on very broad equitable grounds rather than upon strict contract. We think it must be looked at in the general financial revision or readjustment which we are suggesting for the Maritime Provinces."[10]

The White Commission in its report stated that:—

> "As recommended by the Duncan Commission we have given this claim, described by the Duncan Commission as 'a very belated one', due weight, bearing in mind, however, that the facts mentioned were partly taken into account by Parliament in 1912 when on this and other grounds an additional annual subsidy of $100,000 was granted to Prince Edward Island."[11]

It is thus clear that any hardship suffered by the Province over its land transactions has been considered and provided for in previous financial adjustments between the Dominion and the Province, and we can see no sound reason for reopening the matter.

If, however, our general financial proposals are to be implemented, including the proposal that the Dominion should assume provincial debts, we feel that the Province should be relieved of this debt of $782,402.33 to the Dominion along with all other provincial debts. In such an event, the Province could be relieved of annual interest payments on this loan, and its subsidy would be subject to the recommendations which we have made as to adjustment payments from the Dominion to the Province of Prince Edward Island. Such a result would be substantially what the Province has asked in the particular claim now under examination, but it should be noted that the relief of the Province from the debt arising from its land purchases would not be based upon any obligation of the Dominion in respect of this particular debt (an obligation which we find does not exist), but would arise as part of a general scheme under which the Dominion would assume all provincial debts.

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[10] *Report of Royal Commission on Maritime Claims* (1926), p. 19.

[11] *Report of Royal Commission on Financial Arrangements Between the Dominion and Maritime Provinces,* (1935) p. 18.

SECTION G

ABSTRACT OF THE LEADING RECOMMENDATIONS

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ABSTRACT OF THE LEADING RECOMMENDATIONS

The Report which the Commission has prepared is the outcome of two-and-a-half years of carefully planned study. In the course of this period the Commission has held sessions in the capital of every province of Canada and at Ottawa. It has had the benefit of the collaboration of many of the provincial governments, of the evidence of federal and provincial civil servants, of representations made by a large number of organizations in every province of Canada. The Commission has given careful consideration to the requests and suggestions presented to it and has also, with the assistance of a very able research staff, instituted inquiries of its own into the financial, economic and social problems which came within the scope of its terms of reference.

The conclusions which the Commission has reached are, therefore, not sudden inspirations but the result of careful deliberation. The Commissioners consider it both remarkable and significant that, on questions on which the most divergent views are widely and tenaciously held both by public men and by private citizens, they should have arrived at complete agreement. This agreement is not the result of compromise or of give and take but reflects a sincere unanimity of judgment on the great issues which confront the nation. Its significance is enhanced by the fact that the four Commissioners are men from different regions of Canada, men who differ widely in background and in training, as well as in general outlook; and it is also significant that the conclusions which they have reached are far from being the views which any one of them held at the outset of the inquiry. Whether or not the Report will be successful in presenting clearly and forcefully to others the considerations which have carried weight with the Commission, and in convincing others of the validity of the conclusions which the Commissioners have formed, the future alone can show. But in drawing attention to the changes which have taken place in their own views, in the light of the studies which have been made, the Commissioners hope that they may predispose others to peruse both the Report and the research studies which accompany it before arriving at their final opinion as to the merits of the recommendations which the Commission has made.

In the present summary the aim is to set out the principal recommendations embodied in the Report and to indicate briefly the reasons for them. At the heart of the problem lie the needs of Canadian citizens. These needs, whether material or cultural, can be satisfied only if all the provincial governments in Canada are in a position to supply those services which the citizen of today demands of them. The ability of provincial governments to meet the demands of their citizens depends in part on the constitutional powers which they enjoy, in part on their financial capacity to perform their recognized functions. The striking fact in the Commission's study of Canadian conditions is that many provinces, whose financial position is not the result of emergency conditions, are unable to find the money to enable them to meet the needs of their citizens. The basic problem before the Commission lies, therefore, in finding a way in which the financial position of the provinces could be improved and assured, without disastrous financial consequences to the Federal Government on whose efficient functioning all provinces are dependent. National unity and provincial autonomy must not be thought of as competitors for the citizen's allegiance for, in Canada at least, they are but two facets of the same thing—a sane federal system. National unity must be based on provincial autonomy, and provincial autonomy cannot be assured unless a strong feeling of national unity exists throughout Canada.

Some provincial governments explained to the Commission that they could pay their way, and perform their functions to their own complete satisfaction, if the Dominion were to assume this or that onerous service, or were to withdraw from this or that field of taxation, or were to increase their subsidies. But, on examination, it was found that a solution on these lines could not be generalized and that, while it might meet the needs of one or more of the provinces, it would do so at the cost of impairing the Dominion's finances, or of

prejudicing the position of other provinces. The Commissioners were, therefore, compelled to dismiss any such solution as inadequate.

The Commission did, however, find one onerous function of government which cannot, under modern conditions, be equitably or efficiently performed on a regional or provincial basis. This function is the maintenance of those unemployed who are employable and of their dependents. In reaching this conclusion (which is amply supported by the Evidence and the research studies) the Commission merely confirmed conclusions which had been reached by earlier Commissions.[1] So firmly is the Commission convinced of the validity of this conclusion that, even when it comes to consider the situation which will arise if its main recommendations are not implemented, it proceeds on the assumption that the relief of the unemployed who are able and willing to work will become a federal function.

Another function closely analogous to that of relief for employables is that of assistance to a primary industry (e.g., agriculture) in the form of operating cost advances. When relief is on a small scale the responsibility can be borne without difficulty by the province. But in the event of widespread disaster with which a province is unable to cope without assistance from the Dominion, or in the event that the Dominion by such means as an exclusive marketing organization has already established effective control of the industry concerned, the Commission recommends that the Dominion should assume direct administrative and financial responsibility rather than render indirect assistance by way of advances to the provinces affected.

The Commission's treatment of these expensive functions of government may be contrasted with its treatment of another expensive function, namely the payment of non-contributory old age pensions. As the Federal Government is already paying as high a proportion of their cost as it can reasonably pay without assuming control of the administration of the pensions, and as the Commission was convinced that it is more satisfactory that the provinces should continue to administer non-contributory old age pensions, it could not recommend any further financial help to the provinces in this connection. But the Commission is of the opinion that if non-contributory old age pensions were to be superseded or supplemented by a contributory system the latter should, for various reasons, be under the control of the Dominion.

[1] The National Employment Commission and La Commission des Assurances Sociales de Québec.

There is, however, an important financial burden of which provincial governments can be relieved without any sacrifice of autonomy. This is the deadweight cost of their debt service. The burden taken up by the Dominion, if it were to assume this deadweight cost, would be less than the burden of which the provinces were relieved because, as maturities occurred, the debts could be refunded more advantageously by the Dominion than by the provinces. To this extent a saving would accrue to Canadian taxpayers. The Commission has, therefore, recommended that the Dominion should assume all provincial debts (both direct debts and debts guaranteed by the provinces) and that each province should pay over to the Dominion an annual sum equal to the interest which it now receives from its investments. The reason for this proviso is that it would not be expedient that the Dominion should take over liability for a debt which represented a self-liquidating investment retained by a province. Conditions governing future provincial borrowing are outlined in detail in the Report.

In the case of one province this recommendation as to debt requires an important modification. The provincial debt of the Province of Quebec is low in comparison with the per capita debt of other provinces, and is an unusually low fraction of the combined municipal and provincial debt of the Province. To meet this situation, which has arisen through the policy of this Province in imposing on municipalities onerous functions which are performed elsewhere by provincial governments, the Commission has recommended that the Dominion should take over 40 per cent of the combined provincial and municipal net debt service in Quebec.

If the provinces are relieved, in accordance with this recommendation, of the deadweight burden of their debt, it is not unreasonable that they should surrender to the Dominion the subsidies, whatever their character, which they now receive. Prince Edward Island alone would give up subsidies more than equivalent to the deadweight cost of its debt, and, as will be seen, this apparent loss will be more than made up in other ways. The abolition of the provincial subsidies will be in itself no inconsiderable reform, for their history (which is fully examined in the Commission's research studies) is long and tortuous. The subsidies have been based on no clear principles and it has been impossible to say whether or not different provinces have received equal treatment. Specious reasons have often been advanced, and not infrequently accepted, in support of readjustments in

order to avoid the full implications of genuine reasons, and negotiations between the Dominion and the provinces have lacked the candour which is desirable in a democracy.

Up to this point the Commission's proposals, enormously beneficial as they would be to the provinces, would be very onerous to the Dominion. The Commission had, therefore, to consider how to provide the Dominion with sources of revenue which would enable it to carry its new burdens. This inquiry (as will be seen) was combined with the consideration of efficiency and equity in taxation specifically entrusted to the Commission. There could be no question of increasing the legal taxing powers of the Dominion since these are already unlimited. But the provinces, in return for the benefits which they would receive, and for further payments which the Commission finds it necessary to recommend, should be prepared to renounce some of the taxes which they employ (or are entitled to employ) at present. The Dominion, for its part, should be able and willing to refrain from competing with the provinces in respect of sources of revenue left to them and should leave the provinces free to collect these revenues in whatever way appears to them most efficient even if the method of indirect taxation should be involved.

Just as the assumption of provincial debts by the Dominion will lead to savings in interest from which taxpayers will benefit, so there are several taxes from which, if they are under unified control, as great a revenue can be obtained as at present with less hardship to the taxpayer. What is more important, a reorganization of these taxes, of a character which is possible only if they are under unified control, can remove many hindrances which in the recent past have been detrimental to the expansion of the national income (i.e., to the sum total of the incomes of all citizens of Canada). As this income expands, as the result of what may be fairly termed greater efficiency in taxation, the same revenue as at present can be obtained by taxes imposed at lower rates than those of today.

The first of the taxes which the Commission recommends that the provinces should renounce is the tax on personal incomes. Not all provinces impose this tax. Those which get most revenue from it are often taxing incomes which other provinces think that they should have a share in taxing, because they are in part at least earned in them although they are received in those provinces in which investors live, or in which large corporations have their head offices. Nor is this all. The general equity of the whole Canadian tax system—and the Commission has been instructed to concern itself with equity as well as with efficiency in taxation—requires that the tax on personal incomes, which is one of the very few taxes capable of any desired graduation, should be used to supplement other taxes and should be uniform throughout Canada.

The second form of taxation which the Commission recommends that the provinces should forgo includes those taxes imposed on corporations which individuals or partnerships, carrying on the same business as the corporation, would not be required to pay, and taxes on those businesses which only corporations engage in. They include, therefore, the tax on the net income of corporations and a multitude of taxes devised to raise revenue from particular classes of corporations which a province cannot conveniently subject to a tax on net income. They do not include bona fide licence fees, the power to impose which would remain with the province. These provincial corporation taxes are peculiarly vexatious to those who pay them and particularly detrimental to the expansion of the national income. The cost of tax compliance is high. The tax is often payable by a corporation which has no net income. The tax is very likely to be a tax on costs rather than on profits. These taxes are also a frequent source of interprovincial jealousy. Great benefits may be expected if they are swept away and the equivalent revenue raised by federal taxes chiefly on corporate net income.

To ask the provinces to give up the entire revenue which they now derive from taxing corporations would, however, intensify a grievance of which the Commission received complaint in more than one province; for the Dominion would receive a tax on income which was in part derived from the depletion of irreplaceable natural wealth. It is clearly desirable that revenue of this character should be used for developmental work which will compensate for the damage which has been done to the resources of a province. The Commission has, therefore, recommended that the Dominion should pay over to the province concerned 10 per cent of the corporate income derived from the exploitation of the mineral wealth of the province. When what is required is the conservation of natural resources by maintaining their productivity, rather than compensation for depletion by new investment, the provinces are in a position to use their own taxing power.

The third tax which the Commission recommends that the provinces should forgo consists of various forms of succession duty. These differ from the

income taxes in that they have not hitherto been used by the Dominion: but they are taxes to which the Dominion might at any time be compelled to resort. The use made of them by the provinces has given rise to bitter complaint because the provinces have not made equitable arrangements with one another so as to tax each item in an estate in one province only. The differences in rates between provinces, and the dangers of double taxation, seriously distort investment in Canada. The potential competition between provinces desirous of attracting wealthy residents has made it impossible to use these delicate instruments of taxation as a means for giving effect to social policies. Many provinces feel aggrieved because estates which have been built up by investment throughout the whole of Canada are taxed, not for national purposes, but for the benefit of strategically situated provinces.

If the Commission's recommendations stopped at this point, they would, instead of being enormously beneficial to the provinces, leave some of them in a parlous financial position. After the provinces had, on the one hand, been relieved of the cost of unemployment relief and of the deadweight burden of their debt, and had, on the other hand, given up their right to impose personal income taxes, corporation taxes and succession duties, they would find themselves with far less variable expenditures than in the past and with less variable revenues. It is, therefore, possible to form an idea of the size of the probable surplus or deficit of each province. There is a purpose in making this calculation for, if a province were left with a prospective annual deficit, it would not be able to provide for the reasonable needs of its citizens unless it were able, without causing hardship, to increase the revenue which it derived from the sources remaining at its disposal, or to reduce its expenditures while still providing services equivalent to those provided by other provinces.

At this point there must be a refinement in the calculations. What is significant for the purposes of the Commission is the size of the surplus or deficit which would exist in a province if it were to provide the normal Canadian standard of services and impose taxation of normal severity. It is not the services which each province is at present providing, but the average Canadian standard of services, that a province must be put in a position to finance. It is not the revenue which its taxes yield at their present level which matters, but the revenue which it would derive from them if its people were as heavily taxed as Canadians in general. Just as in the case of debt it is necessary to take account of the fact that some provinces are more accustomed than others to provide services for their people through municipalities or other agencies instead of directly. The Commission has, therefore, attempted to compute, province by province, what the cost would be if the province and its municipalities taken together were to provide services on the Canadian standard. Adjustments have been made for the cost of the developmental services appropriate to the province, and for the weight of taxation in the province. The result has been that the Commission has been able to make a recommendation as to the amount, if any, which each individual province should receive from the Dominion annually to enable it to provide normal Canadian services with no more than normal Canadian taxation. The calculations involved were not easy and presented peculiar difficulties in Quebec because of the extent to which educational and social services in that Province are provided, not out of taxation, but by the Church. But the calculations have been made and the Commission recommends that each province found to be in need of such a payment should receive it by way of an annual National Adjustment Grant from the Dominion. This grant as originally fixed would be irreducible. The Commission recommends, however, that National Adjustment Grants should be re-appraised every five years. For special emergencies, which might arise in respect of any province (and which exist in one province today), special provision should be made, as it would be undesirable either to fix an annual grant in perpetuity on the basis of conditions that are transitory, or to fail to provide for serious emergencies. The Commission believes that these provisions will permit of the necessary elasticity in the financial relations between the provinces and the Dominion which has been lacking in the old subsidy system.

In order to assure all provinces of fair and equal treatment in the matter of grants, and in order to assure the general taxpayer that any new or increased grant is justified on the basis of the comparative need of the province concerned, it will be essential that all requests from the provinces with respect to grants should be examined as scientifically and objectively as possible. The Commission, therefore, recommends the establishment of a small permanent commission (which may be called the Finance Commission), assisted by an adequate technical staff, to advise upon all requests for new or increased grants, and to re-appraise the system of grants every five years.

The recommendations which have been described would, if implemented, safeguard the autonomy of every province by ensuring to it the revenue necessary to provide services in accordance with the Canadian standard. Every provincial government (including those whose position will be so good as to make adjustment grants unnecessary) would be placed in a better financial position than it is in today. And the financial position of every province would be immeasurably more secure than it is today. The Commission looks on this as its primary achievement. It is convinced that this fundamental problem must be faced and it has not been able to discover any alternative way in which it could be solved. The recommendations which the Commission has made must be judged as a whole. They cannot with fairness either to the provinces or to the Dominion be considered in isolation for any one of them taken alone might produce grotesque results.

At what cost, it may be asked, will the provinces have secured these advantages? There will be a certain cost to the Dominion and, therefore, to the Dominion's taxpayers. The taxes forgone by the provinces, if replaced by Dominion taxes of equal yield, would not provide all the money which the Dominion will probably be called on to pay under the Plan. It is necessary to say "probably" because the Dominion, unlike the provinces, will be left with highly variable expenditures (e.g., those on unemployment relief) and variable revenues. The long-run effects of the proposed arrangements should, as has been explained, be to increase employment and to increase the national income and, therefore, the national revenue. But the expectation of the Commission is that the Dominion, in the first instance, will have to increase taxes somewhat. Even without increasing tax rates it will obviously increase the taxes payable by citizens of those provinces which have no personal income tax today. It is hardly necessary to add that, in view of the end to be attained, the price seems low.

There will, of course, be adjustments. At every stage of the Commission's inquiry it has endeavoured to frame recommendations which, if implemented, will avoid the minor hardships or inequities that might result if the measures which have, perforce, been somewhat crudely described in this summary, were crudely applied. One or two examples will be given here. Others will be found in the Report itself. But the whole spirit of the Report would suggest that analogous adjustments should be made, even if the Commission has not thought of them and, therefore, has not mentioned them.

If the administration of a service or the collection of a tax is transferred from one government to another it is desirable that those who have administered the service or collected the tax in the past should continue to do so in the future and that their skill and experience should not be lost to the nation nor their personal expectation of continuous employment disappointed. The Commission has, therefore, recommended that the Dominion, if it takes over a provincial function, should continue the employment of those previously employed by the provincial government concerned. This recommendation is particularly important when questions of language are involved.

If a tax now levied by one government is to be replaced by a tax levied by another the new tax should be adjusted to the circumstances of the people on whom it is to be imposed, and advantage should be taken of the opportunity to design the new tax as equitably as possible. Thus, if the Dominion collects succession duties, it is important that the administration for their collection should be decentralized and that small estates should be rapidly cleared without correspondence having to go through Ottawa. And the taxation scales should be arranged so as to tax an estate more lightly when it is divided among many children.

If legislative powers (e.g., in relation to unemployment insurance) are to be conferred on the Dominion in addition to those which it now enjoys, it is important that they should be strictly defined so as to avoid the danger of their being extended by interpretation in unexpected ways which might interfere with the civil code in Quebec, or with the corresponding interests of other provinces.

This brief summary would lose its way among details were it to attempt to enumerate the recommendations—some of them important recommendations—which the Commission has felt bound to make in its Report. What has been said should indicate the structure of the Dominion-provincial financial relations which would, in the opinion of the Commission, characterize a healthy federal system in Canada. Before passing on to mention a few of the subsidiary recommendations, it may be worth while to point out that the Commission's financial proposals are, in terms of the economic life of 1939, very similar to what the provisions of the British North America Act were in terms of the economic life of 1867.

In the first place the Dominion assumed provincial debts in 1867, as it would do today were effect to be given to the Commission's recommendations. In the second place the Dominion was expected to exercise in 1867 the chief taxing power of that time (customs and excise) as, under the Commission's proposals, it is expected to exercise other chief taxing powers of today (the personal income tax, corporation taxes and succession duties). In the third place the Dominion was to pay subsidies in 1867 to enable the provinces to perform the functions entrusted to them without having to resort to oppressive taxation. Under the Commission's proposals the Dominion would pay National Adjustment Grants for precisely the same purpose. It is true that a different measure of the amount to be paid to each province would be adopted now than that which was then considered appropriate. But this difference is more apparent than real, for it arises from the inequalities of wealth which have developed as between the provinces. Equal per capita subsidies did conform in some rough approximation to the fiscal needs of 1867. They would not do so today. The Commission hopes that the methods which it has employed for calculating the appropriate adjustment grants will be able to accomplish what the per capita formula was intended to achieve in 1867, for, though the means have changed, the end remains the same, namely the maintenance of provincial governments which can provide the necessary services for their people.

It will be noted that, in the recommendations which have been summarized, nothing has been said of one of the major problems of Canadian governmental finance—the problem of municipal finance and of the burdens which have been placed on real estate. On this subject the Commission received numerous representations and was made fully aware of the seriousness of the situation. But the Commission was in a peculiar position, in so far as the municipalities were concerned, for they are the creatures of the provinces in which they are situated and their financial powers and duties are such as the province chooses to confer on them. The financial plan which has been described has taken account of municipal expenditures and taxation as part of the provincial picture and it will, if it is implemented, have very important indirect effects on municipal finance. It will relieve the municipalities of their share in providing relief for employables and their dependents. It will put every provincial government in a better position than it is in today for extending such aid as it may think fit to its municipalities, whether by relieving them of the cost of services which they now perform, or by contributing financially to the cost of these services. In the case of the Province of Quebec, as has been explained, the Dominion would assume a portion of the municipal debt. In every province the way would be cleared for dealing (if the province so desires) with municipal debts generally in the same sort of way that the Commission has recommended should be adopted for provincial debts. Such a step would, in turn, facilitate much needed reforms in the structure of municipalities, particularly in the great metropolitan areas. But the future of the municipalities lies in the hands of the provinces.

One or two illustrations must suffice to show that other matters have come under consideration which are not closely related to the main financial questions. The Commission did not consider that it lay within its terms of reference to deal with the desirability, or undesirability, of the Dominion having power to implement its treaty obligations (otherwise than under section 132 of the British North America Act), if implementation would require legislation on topics within the exclusive jurisdiction of the provinces. But the Commission did consider that it could recommend that the Dominion should have power to implement conventions of the International Labour Organization. These partake of the character of international legislation. Many of the parties to them are countries with civil codes not dissimilar to that of Quebec; others are countries with English common law. Some are Catholic; others Protestant. In these circumstances it seemed that the rights of particular provinces were adequately protected against any encroachment of the federal power. And if international normative legislation of this character is desirable it is through the Dominion Government that Canada must become a party to it.

In respect to marketing legislation great difficulty has been experienced in framing Dominion and provincial legislation which will cover the whole field, even when the wishes of Dominion and provinces are identical. The Commission has sought to remedy this situation by recommending that the Dominion and the provinces should have concurrent legislative powers to deal with the marketing of a named list of natural products to which additions may be made from time to time by common consent.

Nor is this the only instance in which it has seemed appropriate that a power of delegation

should form part of Canadian federal relations. The Commission has recommended that this power should be quite general and that the Dominion should be able to delegate any of its legislative powers to a province, and that a province should be able to delegate any of its legislative powers to the Dominion. Delegation should provide a convenient means of dealing with specific questions as they may arise from time to time without limiting in advance the power of either the Dominion or the provinces. In some instances one or more of the provinces might be prepared to delegate powers to the Dominion while other provinces were unwilling, and in such cases the advantages of a power of delegation over constitutional amendment would lie in flexibility.

The Commission has come to consider the transportation problem of Canada one of the problems which cannot be solved without close collaboration between the Dominion and the provinces. It realizes, however, that its own technical competence is slight in this field and has, therefore, confined itself to discussing the issues which will have to be faced, in the hope of doing something to clarify the problem of jurisdiction. It points out, however, the great advantage which might be derived from a Transport Planning Commission which would be concerned both with planning transportation developments in a broad way, and with facilitating the co-operation between the Dominion and the provinces in transportation matters which is necessary for the taxpayer.

While the Commission believes that new governmental machinery should be kept at a minimum, it nevertheless considers that special provision should be made to facilitate co-operation between the Dominion and the provinces. In an earlier day, when the functions of government were relatively few and administrative organization relatively simple, it may have been possible for Dominion and provincial governments to operate largely in watertight compartments. But with the great expansion of governmental functions, and the growing complexity of administration, it is no longer possible to do this without serious loss of efficiency and economy in government. Co-operation between the autonomous governments of the federal system has today become imperative. The Commission recommends as the principal means to this end that Dominion-Provincial Conferences, which have hitherto met at infrequent intervals, should now be regularized, and provision made for frequent meetings, say every year. It urges further that the Conference should be provided with an adequate and permanent secretariat for the purpose of serving the Conference directly, and of facilitating co-operation between the Dominion and the provinces in general.

The special claims advanced by certain governments have been considered in detail in the body of the Report. Although these claims will have little financial importance if the Commission's main financial proposals are implemented, it was deemed advisable to examine them on their merits and to report upon them in view of the desirability of clearing up old grievances in any general settlement between the provinces and the Dominion.

Many complaints about the working of the federal system were also presented to the Commission by private organizations. The Commission viewed such complaints as important evidence, but in many cases their subject matter fell outside its terms of reference.

* * * *

In conclusion of this summary it remains to add that the decisions underlying the recommendations contained in the Report were reached before the outbreak of War. The Commission decided, after deliberation, to complete the Report exactly as it would have been completed had War not been declared. Although it is true that the War is certain to produce great changes in the structure of the Canadian economy, it is equally true that the nature and extent of these changes, dependent as they are on the length and intensity of the struggle, cannot be predicted at the present time. The basic recommendations of the Commission concerning the re-allocation of the functions of government and the financial relations of the Dominion and the provinces were framed with the possibility of emergencies in mind and are, it is hoped, sufficiently flexible to be adjusted to any situation which the War may produce.

Of the subsidiary recommendations many are concerned with matters not in the least likely to be affected by the strains and stresses of War, while some may require modification in the light of events. The need for some action designed to enable the people of Canada to throw their whole weight into any great national effort, such as the struggle to which they have committed themselves, and at the same time to ensure the smooth working of the social and educational services on which the welfare of the mass of the people depends, is far greater and far more urgent in time of War and of post-War reorganization than it is in time of peace. And it is precisely to these two main objectives that the chief recommendations of the Commission have been directed.

It has been the aim of the Commission to frame proposals which will, if implemented, place jurisdiction over the social services in the hands of the governments most likely to design and administer them, not merely with the greatest economy and the greatest technical efficiency, but with the regard for the social, cultural and religious outlook of the various regions of Canada, which is essential to genuine human welfare. The financial proposals have been designed to enable every province of Canada to rely on having sufficient revenue at its command in war-time as in peace-time, in years of adversity as in years of prosperity, to carry out the important functions entrusted to it. They are also designed to produce this result while leaving the fiscal powers of the Dominion as wide in fact as they have always been in law, so that it may direct the wealth of the nation as the national interest may require. If some such adjustment of Canadian economic life appeared sufficiently urgent to lead to the appointment of the Commission in time of peace, how much more urgent is it in time of war? How much more urgent will it be in the critical transition from war to peace again?

The Report must face the verdict of public opinion and opinion is not the same in war as in peace. The Report was prepared with peace-time opinion in mind. But it is the hope of the Commission that the gravity of the hour will dispose people in all regions of Canada to take serious thought of their country's welfare and to look at the broad lines of the recommendations, keeping matters of detail in rational perspective. For the Report, while taking account of possibility of war as of any other emergency, was framed with a view to a future which will, it is hoped, be in the main one of peace, and it is on its merits with respect to this supposedly peaceful future that the Report must stand or fall. The Commission does not consider that its proposals are either centralizing or decentralizing in their combined effect but believes that they will conduce to the sane balance between these two tendencies which is the essence of a genuine federal system and, therefore, the basis on which Canadian national unity can most securely rest.



Chairman,







Alex. Skelton,
Secretary.

Adjutor Savard,
French Secretary.

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REPORT OF THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BOOK III

DOCUMENTATION



REPORT
OF THE
ROYAL COMMISSION
ON
DOMINION-PROVINCIAL RELATIONS

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DOCUMENTATION

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PART A

COMPARATIVE STATISTICS OF PUBLIC FINANCE

INTRODUCTION

THE first part of this volume contains condensed comparative statistics of the finances of Dominion, provincial and municipal governments for the years 1913, 1921, 1926, 1930, and 1937, and in certain tables for the years 1938 and 1939. For convenience the tables have been divided into three groups, as follows:—

Section I—Grand Summary, all Governments.

Section II—Statements illustrating the Commission's Financial Recommendations.

Section III—Municipal Governments.

Dominion and Provincial Statistics

These were compiled on the basis outlined in the Introduction to Appendix I.

At the commencement of the Commission's Public Finance Inquiry, an examination of the Public Accounts of the several governments revealed a complete lack of uniformity in accounting methods. Most governments report financial statistics by departments, having in mind ministerial responsibility; the work of departments varies between governments, and a departmental classification was valueless for comparative purposes. There was no uniform classification of revenue or expenditure under income or capital accounts; certain governments report on a cash basis, and others use the accrual system, and some a combination of both methods. There was the further difficulty of fiscal year ends. The Dominion and three provinces now have fiscal years ending March 31st; others vary from October 31st of the previous calendar year to June 30th following the Dominion year end. In many instances the fiscal years of subsidiary enterprises do not coincide with those of their governments.

To secure uniformity, the Dominion and provincial governments were invited, and agreed, to co-operate in the preparation of a financial questionnaire giving particulars of financial operations up to and including year ends nearest to December 31, 1936. The questionnaire was duly completed by all governments except Quebec, and the statistics for that Province were extracted by the Commission's staff from the Public Accounts and other official documents. In the case of the other governments the completed questionnaires were test checked against the Public Accounts, and adjusted where necessary for comparative purposes. Details of these adjustments appear in Appendices A-K. Draft statements were circulated to the governments and reviewed by them. Statistics for the fiscal years 1937, 1938, and 1939 were prepared by the Commission's staff on the basis of Public Accounts or official estimates.

In the consolidated tables the difference in fiscal year ends resulted in minor variations, but did not materially affect the general results.

Municipal Statistics

In spite of serious deficiencies in the material available, an attempt has been made to compile statistics on a comparable basis for every province, classified in the same manner as the Dominion and provincial accounts. Instead of the customary classification by cities, towns, villages and rural municipalities, which is of little value for purposes of analysis due to the variations in

provincial definitions of units, a new and more significant grouping was employed—Metropolitan Areas, Other Urban, and Rural. It is considered that these statistics are sufficiently accurate to give a satisfactory picture of relative proportions and comparative trends, although individual items may not be entirely accurate. The consolidated Balance Sheets and other statements shown in this volume have been constructed, as far as municipal statistics are concerned, within the limitations set forth above and should be interpreted accordingly.

Section I

This group contains tables showing the combined position of all Canadian governments for 1913, 1921, 1926, 1930, and 1937.

Section II

In this group particulars are given of the effect of Plan I and Plan II on each province and its municipalities for selected years. In addition, details are shown of the chief categories of expenditure which are affected by Plan I. A breakdown is given of expenditures for relief, public welfare, education, and debt charges. Further tables give an analysis of outstanding debt by purposes, the increase in debts from 1913-1937, the over-all surplus or deficit for the selected years, and the gross bonded debt of the Dominion of Canada, Canadian National Railways, and Provinces, by currencies of payment, average coupon rates and maturities.

Section III

Tables in this section summarize the operations of municipal governments and give particulars of outstanding debt, over-all surplus or deficit, and revenue and expenditure on current account. Necessary explanations and qualifications will be found in the Introduction to this Section.

COMPARATIVE STATISTICS OF PUBLIC FINANCE

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ALL GOVERNMENTS

TABLE 1

COMBINED BALANCE SHEET

Thousands of Dollars

Item No.	ASSETS	AS AT FISCAL YEAR ENDS NEAREST TO DECEMBER 31				
		1913	1921	1926	1930	1937
1	CASH AND OTHER LIQUID ASSETS..	59,622	248,768	255,885	353,645	415,811
2	RAILWAYS.....	762,514	2,059,244	2,369,992	2,650,051	3,089,313
3	PUBLIC UTILITIES.....	163,171	427,888	576,414	674,100	658,956
4	HARBOUR COMMISSIONS.....	30,332	46,389	82,354	137,067	174,455
5	HIGHWAYS, BRIDGES AND STREETS	193,940	364,575	517,989	744,551	1,105,428
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS.....	149,170	229,063	296,036	373,792	413,222
7	OTHER PUBLIC WORKS.....	241,685	431,939	556,782	669,569	766,414
	LOANS, PARTIAL OR NON-INTEREST BEARING—					
8	Colonization, Agricultural Aid and Development.....	5,161	119,892	159,468	185,998	253,002
9	Other.....	3,875	20,561	16,861	13,989	20,158
10	DIRECT RELIEF.....	—	—	264	7,784	(1)623,248
	OTHER NON-RECOVERABLE EXPENDITURES—					
11	War.....	—	1,688,046	1,673,092	1,658,885	1,646,427
12	Merchant Marine.....	—	—	9,476	24,951	23,708
13	Shipbuilding.....	—	57,288	55,763	55,043	54,268
14	Wheat Bonus and Stabilization.....	—	—	—	—	27,834
15	Other.....	23,151	29,247	35,565	58,845	80,529
16	Sub-Total.....	*23,151*	*1,774,581*	*1,773,896*	*1,797,724*	*1,832,766*
17	CUMULATIVE SUB-TOTAL.....	**1,632,621**	**5,722,900**	**6,605,941**	**7,608,270**	**9,352,773**
18	SURPLUS AND RESERVE ACCOUNTS	334,646	840,103	1,141,139	1,434,481	1,490,042
19	TOTAL ASSETS, accounting for Outstanding Debt.....	**1,297,975**	**4,882,797**	**5,464,802**	**6,173,789**	**7,862,731**
	LIABILITIES					
20	FUNDED DEBT, less Sinking Funds.....	1,149,121	4,525,276	5,093,970	5,678,762	7,059,291
21	TREASURY BILLS.....	10,750	165,333	62,063	91,183	252,900
22	FLOATING DEBT.....	138,104	184,645	305,158	393,025	507,911
23	GUARANTEED BANK LOANS.....	—	7,154	3,343	10,270	40,106
24	OTHER CONTINGENT LIABILITIES.	—	389	268	549	2,523
25	TOTAL OUTSTANDING DEBT.....	**1,297,975**	**4,882,797**	**5,464,802**	**6,173,789**	**7,862,731**

(1) In addition 65,347 charged by municipalities to current account.

ALL GOVERNMENTS

COMPARATIVE BALANCE SHEET

1913 (1)

Thousands of Dollars

Item No.	ASSETS	ALL GOVERNMENTS	ELIMINATIONS		Dominion and C.N.R.	Provincial	Municipal
			Dom.-Prov.	Prov.-Mun.			
1	CASH AND OTHER LIQUID ASSETS	59,622	715	946	24,313	27,193	9,777
2	RAILWAYS	762,514	—	—	598,237	164,277	—
3	PUBLIC UTILITIES	163,171	—	—	—	30,962	132,209
4	HARBOUR COMMISSIONS	30,332	—	—	30,332	—	—
5	HIGHWAYS, BRIDGES AND STREETS	193,940	—	—	—	30,735	163,205
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS	149,170	—	—	149,170	—	—
7	OTHER PUBLIC WORKS	241,685	—	—	15,765	26,459	199,461
	LOANS, PARTIAL OR NON-INTEREST BEARING—						
8	Colonization, Agricultural Aid, and Development	5,161	180	—	426	4,915	—
9	Other	3,875	—	—	412	3,463	—
10	OTHER NON-RECOVERABLE EXPENDITURES	23,151	735	—	22,014	402	—
11	CUMULATIVE SUB-TOTAL	1,632,621	160	946	840,669	288,406	504,652
12	SURPLUS AND RESERVE ACCOUNTS	334,646	11,376	—	319,832	3,438	—
13	TOTAL ASSETS, accounting for Outstanding Debt	1,297,975	11,536	946	520,837	284,968	504,652
	LIABILITIES						
14	FUNDED DEBT, less Sinking Funds	1,149,121	8,765	946	400,817	263,140	494,875
15	TREASURY BILLS	10,750	—	—	—	10,750	—
16	FLOATING DEBT	138,104	2,645	—	120,020	10,952	9,777
17	OTHER CONTINGENT LIABILITIES	—	126	—	—	126	—
18	TOTAL OUTSTANDING DEBT	1,297,975	11,536	946	520,837	284,968	504,652

(1) As at fiscal year ends nearest to December 31, 1913.

ALL GOVERNMENTS

TABLE 2

COMPARATIVE BALANCE SHEET

1913 (1)

Thousands of Dollars

TOTAL	PROVINCIAL AND MUNICIPAL									Item No.
	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
36,970	—	5,341	1,775	5,458	5,502	1,654	6,633	8,498	2,109	1
164,277	—	—	5,702	16,744	27,556	24,042	17,904	33,068	39,261	2
163,171	182	4,168	3,426	26,700	41,954	26,647	16,801	26,093	17,200	3
—	—	—	—	—	—	—	—	—	—	4
193,940	1,460	8,893	3,788	28,339	65,800	18,244	13,869	16,892	36,655	5
—	—	—	—	—	—	—	—	—	—	6
225,920	23	5,166	2,952	98,481	29,617	20,019	21,839	28,613	19,210	7
4,915	—	—	48	—	—	3,393	190	58	1,226	8
3,463	—	4	452	1,488	56	—	490	2	971	9
402	2	—	32	—	—	—	135	220	13	10
793,058	1,667	23,572	18,175	177,210	170,485	93,999	77,861	113,444	116,645	11
3,438	—	1,055	14	6,162	2,399	4,801	1,040	175	4,950	12
789,620	**1,667**	**24,627**	**18,161**	**171,048**	**172,884**	**89,198**	**76,821**	**113,619**	**121,595**	13
758,015	1,396	21,166	16,529	167,908	169,703	89,188	69,922	103,160	119,043	14
10,750	—	—	973	1,460	2,920	—	3,893	—	1,504	15
20,729	271	3,461	659	1,680	261	10	2,880	10,459	1,048	16
126	—	—	—	—	—	—	126	—	—	17
789,620	**1,667**	**24,627**	**18,161**	**171,048**	**172,884**	**89,198**	**76,821**	**113,619**	**121,595**	18

ALL GOVERNMENTS

COMPARATIVE BALANCE SHEET

1921 (1)

Thousands of Dollars

Item No.	ASSETS	ALL GOVERNMENTS	ELIMINATIONS		Dominion and C.N.R.	Provincial	Municipal
			Dom.-Prov.	Prov.-Mun.			
1	CASH AND OTHER LIQUID ASSETS	248,768	21,109	16,910	178,230	98,825	9,732
2	RAILWAYS	2,059,244	2,728	—	1,949,470	112,502	—
3	PUBLIC UTILITIES	427,888	—	—	—	172,064	255,824
4	HARBOUR COMMISSIONS	46,389	—	—	46,389	—	—
5	HIGHWAYS, BRIDGES AND STREETS	364,575	—	—	—	119,522	245,053
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS	229,063	—	—	229,063	—	—
7	OTHER PUBLIC WORKS	431,939	—	—	29,300	109,564	293,075
	LOANS, PARTIAL OR NON-INTEREST BEARING—						
8	Colonization, Agricultural Aid and Development	119,892	112	7,666	83,725	43,945	—
9	Other	20,561	—	—	8,401	12,160	—
	OTHER NON-RECOVERABLE EXPENDITURES—						
10	War	1,688,046	—	—	1,684,513	3,533	—
11	Shipbuilding	57,288	—	—	57,288	—	—
12	Other	29,247	700	—	21,645	8,302	—
13	Sub-Total	*1,774,581*	700	—	*1,763,446*	*11,835*	—
14	CUMULATIVE SUB-TOTAL	5,722,900	24,649	24,576	4,288,024	680,417	803,684
15	SURPLUS AND RESERVE ACCOUNTS	840,103	25,043	—	767,985	47,075	—
16	TOTAL ASSETS, accounting for Outstanding Debt	4,882,797	49,692	24,576	3,520,039	633,342	803,684
	LIABILITIES						
17	FUNDED DEBT, less Sinking Funds	4,525,276	41,294	23,356	3,225,542	570,432	793,952
18	TREASURY BILLS	165,333	—	—	143,820	21,513	—
19	FLOATING DEBT	184,645	8,323	1,220	150,677	33,779	9,732
20	GUARANTEED BANK LOANS	7,154	—	—	—	7,154	—
21	OTHER CONTINGENT LIABILITIES	389	75	—	—	464	—
22	TOTAL OUTSTANDING DEBT	4,882,797	49,692	24,576	3,520,039	633,342	803,684

(1) As at fiscal year ends nearest to December 31, 1921.

ALL GOVERNMENTS

TABLE 3

COMPARATIVE BALANCE SHEET

1921 (1)

Thousands of Dollars

PROVINCIAL AND MUNICIPAL										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
108,557	4	6,463	2,952	13,031	35,319	10,437	18,252	7,458	14,641	1
112,502	—	—	10,794	16,526	23,600	—	—	26,859	34,723	2
427,888	149	7,837	8,536	43,677	228,665	55,737	23,543	39,450	20,294	3
—	—	—	—	—	—	—	—	—	—	4
364,575	1,934	17,368	12,511	71,144	140,103	17,397	20,881	31,314	51,923	5
—	—	—	—	—	—	—	—	—	—	6
402,639	283	8,792	3,857	151,513	88,829	44,332	32,796	39,606	32,631	7
43,945	—	—	160	2,536	642	12,257	11,227	7,337	9,786	8
12,160	—	8	456	488	5,638	3,470	118	363	1,619	9
3,533	—	—	120	1,693	—	1,283	—	437	—	10
—	—	—	—	—	—	—	—	—	—	11
8,302	1	—	37	3,533	—	466	509	2,399	1,357	12
11,835	*1*	—	*157*	*5,226*	—	*1,749*	*509*	*2,836*	*1,357*	13
1,484,101	2,371	40,468	39,423	304,141	522,796	145,379	107,326	155,223	166,974	14
47,075	1	1,019	943	23,883	11,906	3,377	4,739	1,053	6,186	15
1,437,026	2,372	41,487	40,366	280,258	510,890	142,002	102,587	156,276	160,788	16
1,364,384	1,757	38,179	35,529	274,759	493,951	135,123	87,618	144,832	152,636	17
21,513	—	—	—	—	16,000	2,438	1,372	—	1,703	18
43,511	615	3,308	4,837	5,499	939	4,441	10,901	7,376	5,595	19
7,154	—	—	—	—	—	—	2,232	4,068	854	20
464	—	—	—	—	—	—	464	—	—	21
1,437,026	2,372	41,487	40,366	280,258	510,890	142,002	102,587	156,276	160,788	22

ALL GOVERNMENTS

COMPARATIVE BALANCE SHEET

1926 (1)

Thousands of Dollars

Item No.	ASSETS	ALL GOVERNMENTS	ELIMINATIONS		Dominion and C.N.R.	Provincial	Municipal
			Dom.-Prov.	Prov.-Mun.			
1	CASH AND OTHER LIQUID ASSETS	255,885	28,536	25,416	120,539	128,725	60,573
2	RAILWAYS	2,369,992	2,728	—	2,241,696	131,024	—
3	PUBLIC UTILITIES	576,414	—	—	—	259,912	316,502
4	HARBOUR COMMISSIONS	82,354	—	—	82,354	—	—
5	HIGHWAYS, BRIDGES AND STREETS	517,989	—	—	—	231,959	286,030
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS	296,036	—	—	296,036	—	—
7	OTHER PUBLIC WORKS	556,782	—	—	33,103	148,346	375,333
	LOANS, PARTIAL OR NON-INTEREST BEARING—						
8	Colonization, Agricultural Aid, and Development	159,468	95	—	92,687	66,876	—
9	Other	16,861	—	7,853	8,455	16,259	—
10	DIRECT RELIEF	264	—	—	—	264	—
	OTHER NON-RECOVERABLE EXPENDITURES—						
11	War	1,673,092	—	—	1,669,039	4,053	—
12	Merchant Marine	9,476	—	—	9,476	—	—
13	Shipbuilding	55,763	—	—	55,763	—	—
14	Other	35,565	145	—	21,930	13,490	—
15	Sub-Total	*1,773,896*	*145*	—	*1,756,208*	*17,543*	—
16	CUMULATIVE SUB-TOTAL	6,605,941	31,214	33,269	4,631,078	1,000,908	1,038,438
17	SURPLUS AND RESERVE ACCOUNTS	1,141,139	30,262	—	1,061,460	49,417	—
18	TOTAL ASSETS, accounting for Outstanding Debt	5,464,802	61,476	33,269	3,569,618	951,491	1,038,438
	LIABILITIES						
19	FUNDED DEBT, less Sinking Funds	5,093,970	48,496	31,951	3,397,008	799,544	977,865
20	TREASURY BILLS	62,063	—	—	—	62,063	—
21	FLOATING DEBT	305,158	12,911	1,318	172,610	86,204	60,573
22	GUARANTEED BANK LOANS	3,343	—	—	—	3,343	—
23	OTHER CONTINGENT LIABILITIES	268	69	—	—	337	—
24	TOTAL OUTSTANDING DEBT	5,464,802	61,476	33,269	3,569,618	951,491	1,038,438

(1) As at fiscal year ends nearest to December 31, 1926.

ALL GOVERNMENTS

TABLE 4

COMPARATIVE BALANCE SHEET

1926 (1)

Thousands of Dollars

TOTAL	PROVINCIAL AND MUNICIPAL									Item No.
	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
189,298	112	9,152	3,815	48,576	56,080	27,458	13,737	13,668	16,700	1
131,024	—	—	12,195	16,918	30,208	—	—	35,379	36,324	2
576,414	266	11,544	11,608	57,508	340,833	64,191	31,924	37,594	20,946	3
—	—	—	—	—	—	—	—	—	—	4
517,989	967	22,905	19,115	98,673	225,747	26,550	27,312	38,372	58,348	5
—	—	—	—	—	—	—	—	—	—	6
523,679	1,529	14,163	6,002	191,060	137,488	45,603	35,530	50,883	41,421	7
66,876	—	—	210	7,000	12,893	16,057	10,992	6,598	13,126	8
16,259	—	132	503	533	8,711	4,067	17	788	1,508	9
264	—	—	—	—	—	—	264	—	—	10
4,053	—	—	120	1,693	—	1,665	—	575	—	11
—	—	—	—	—	—	—	—	—	—	12
—	—	—	—	—	—	—	—	—	—	13
13,490	9	72	30	6,406	17	780	738	2,543	2,895	14
17,543	*9*	*72*	*150*	*8,099*	*17*	*2,445*	*738*	*3,118*	*2,895*	15
2,039,346	2,883	57,968	53,598	428,367	811,977	186,371	120,514	186,400	191,268	16
49,417	465	2,320	5	50,130	18,452	5,057	6,341	1,763	10,884	17
1,989,929	**3,348**	**60,288**	**53,593**	**378,237**	**830,429**	**181,314**	**114,173**	**188,163**	**180,384**	18
1,777,409	2,648	53,005	48,764	349,189	723,609	151,749	106,505	172,621	169,319	19
62,063	—	2,500	—	6,750	48,000	1,750	817	—	2,246	20
146,777	700	4,710	4,829	22,298	58,820	26,656	5,678	14,267	8,819	21
3,343	—	42	—	—	—	1,159	1,017	1,125	—	22
337	—	31	—	—	—	—	156	150	—	23
1,989,929	**3,348**	**60,288**	**53,593**	**378,237**	**830,429**	**181,314**	**114,173**	**188,163**	**180,384**	24

ALL GOVERNMENTS

COMPARATIVE BALANCE SHEET

1930 (1)

Thousands of Dollars

Item No.	ASSETS	ALL GOVERNMENTS	ELIMINATIONS		Dominion and C.N.R.	Provincial	Municipal
			Dom.-Prov.	Prov.-Mun.			
1	CASH AND OTHER LIQUID ASSETS	353,645	24,894	20,710	123,916	179,310	96,023
2	RAILWAYS	2,650,051	—	—	2,541,494	108,557	—
3	PUBLIC UTILITIES	674,100	—	—	—	330,403	343,697
4	HARBOUR COMMISSIONS	137,067	—	—	137,067	—	—
5	HIGHWAYS, BRIDGES AND STREETS	744,551	—	—	1,117	390,005	353,429
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS	373,792	—	—	373,792	—	—
7	OTHER PUBLIC WORKS	669,569	—	—	40,841	183,532	445,196
	LOANS, PARTIAL OR NON-INTEREST BEARING—						
8	Colonization, Agricultural Aid, and Development	185,998	89	—	87,353	98,734	—
9	Other	13,989	—	10,227	8,472	15,744	—
10	DIRECT RELIEF	7,784	—	—	3,315	4,469	—
	OTHER NON-RECOVERABLE EXPENDITURES—						
11	War	1,658,885	—	—	1,654,804	4,081	—
12	Merchant Marine	24,951	—	—	24,951	—	—
13	Shipbuilding	55,043	—	—	55,043	—	—
14	Other	58,845	1,304	—	21,931	35,610	—
15	Sub-Total	*1,797,724*	*1,304*	—	*1,756,729*	*39,691*	—
16	CUMULATIVE SUB-TOTAL	7,608,270	23,679	30,937	5,074,096	1,350,445	1,238,345
17	SURPLUS AND RESERVE ACCOUNTS	1,434,481	35,248	—	1,294,842	104,391	—
18	TOTAL ASSETS, accounting for Outstanding Debt	6,173,789	58,927	30,937	3,779,254	1,246,054	1,238,345
	LIABILITIES						
19	FUNDED DEBT, less Sinking Funds	5,678,762	43,025	26,212	3,570,561	1,035,116	1,142,322
20	TREASURY BILLS	91,183	—	—	—	91,183	—
21	FLOATING DEBT	393,025	15,831	4,725	208,693	108,865	96,023
22	GUARANTEED BANK LOANS	10,270	—	—	—	10,270	—
23	OTHER CONTINGENT LIABILITIES	549	71	—	—	620	—
24	TOTAL OUTSTANDING DEBT	6,173,789	58,927	30,937	3,779,254	1,246,054	1,238,345

(1) As at fiscal year ends nearest to December 31, 1930.

ALL GOVERNMENTS

TABLE 5

COMPARATIVE BALANCE SHEET

1930 (1)

Thousands of Dollars

PROVINCIAL AND MUNICIPAL										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
275,333	111	9,936	8,383	53,703	86,735	36,941	17,710	33,099	28,715	1
108,557	—	—	6,251	17,020	36,208	—	—	11,441	37,637	2
674,100	470	19,383	10,565	82,172	391,922	69,473	35,200	39,577	25,338	3
—	—	—	—	—	—	—	—	—	—	4
743,434	1,713	30,265	37,115	131,078	329,178	33,799	43,214	47,667	89,405	5
—	—	—	—	—	—	—	—	—	—	6
628,728	1,771	17,026	7,726	232,095	164,718	49,725	46,926	59,879	48,862	7
98,734	—	—	925	7,000	30,776	17,072	21,340	8,620	13,001	8
15,744	—	270	455	758	8,925	3,113	176	951	1,096	9
4,469	—	—	—	312	24	289	2,582	270	992	10
4,081	—	—	120	1,693	—	1,694	—	574	—	11
—	—	—	—	—	—	—	—	—	—	12
—	—	—	—	—	—	—	—	—	—	13
35,610	20	453	239	19,227	4,647	931	911	3,269	5,913	14
39,691	*20*	*453*	*359*	*20,920*	*4,647*	*2,625*	*911*	*3,843*	*5,913*	15
2,588,790	4,085	77,333	71,779	545,058	1,053,133	213,037	168,059	205,347	250,959	16
104,391	332	1,641	2,372	86,373	11,187	10,106	4,384	835	13,481	17
2,484,399	**4,417**	**78,974**	**69,407**	**458,685**	**1,064,320**	**202,931**	**163,675**	**204,512**	**237,478**	18
2,177,438	3,285	72,363	54,533	437,249	940,870	162,862	135,523	170,452	200,301	19
91,183	—	1,500	4,745	—	38,940	8,154	7,876	9,935	20,033	20
204,888	1,132	4,796	10,129	21,436	84,510	31,355	14,390	19,996	17,144	21
10,270	—	315	—	—	—	560	5,616	3,779	—	22
620	—	—	—	—	—	—	270	350	—	23
2,484,399	**4,417**	**78,974**	**69,407**	**458,685**	**1,064,320**	**202,931**	**163,675**	**204,512**	**237,478**	24

ALL GOVERNMENTS

COMPARATIVE BALANCE SHEET

1937 (1)

Thousands of Dollars

Item No.	ASSETS	ALL GOVERNMENTS	ELIMINATIONS		Dominion and C.N.R.	Provincial	Municipal
			Dom.-Prov.	Prov.-Mun.			
1	CASH AND OTHER LIQUID ASSETS	415,811	159,485	15,000	283,221	195,067	112,008
2	RAILWAYS	3,089,313	—	—	2,975,008	114,305	—
3	PUBLIC UTILITIES	658,956	—	—	—	354,734	304,222
4	HARBOUR COMMISSIONS	174,455	—	—	174,455	—	—
5	HIGHWAYS, BRIDGES AND STREETS	1,105,428	—	—	66,619	690,809	348,000
6	CANALS, HARBOURS AND RIVER IMPROVEMENTS	413,222	—	—	413,222	—	—
7	OTHER PUBLIC WORKS	766,414	—	—	82,499	234,004	449,911
	LOANS, PARTIAL OR NON-INTEREST BEARING—						
8	Colonization, Agricultural Aid, and Development	253,002	87	—	85,009	168,080	—
9	Other	20,158	—	15,000	7,984	27,174	—
10	DIRECT RELIEF	623,248	2,555	—	317,831	250,972	(2)57,000
	OTHER NON-RECOVERABLE EXPENDITURES—						
11	War	1,646,427	—	—	1,642,333	4,094	—
12	Merchant Marine	23,708	—	—	23,708	—	—
13	Shipbuilding	54,268	—	—	54,268	—	—
14	Wheat Bonus and Stabilization	27,834	—	—	27,834	—	—
15	Other	80,529	4,203	—	21,946	54,380	—
16	Sub-Total	*1,832,766*	4,203	—	*1,770,089*	*58,474*	—
17	CUMULATIVE SUB-TOTAL	9,352,773	157,924	30,000	6,175,937	2,093,619	1,271,141
18	SURPLUS AND RESERVE ACCOUNTS	1,490,042	35,804	—	1,320,910	133,328	—
19	TOTAL ASSETS, accounting for Outstanding Debt	7,862,731	193,728	30,000	4,855,027	1,960,291	1,271,141
	LIABILITIES						
20	FUNDED DEBT, less Sinking Funds	7,059,291	41,845	21,000	4,405,551	1,557,452	1,159,133
21	TREASURY BILLS	252,900	130,377	—	150,250	233,027	—
22	FLOATING DEBT	507,911	6,569	9,000	280,826	130,646	112,008
23	GUARANTEED BANK LOANS	40,106	14,937	—	18,400	36,643	—
24	OTHER CONTINGENT LIABILITIES	2,523	—	—	—	2,523	—
25	TOTAL OUTSTANDING DEBT	7,862,731	193,728	30,000	4,855,027	1,960,291	1,271,141

(1) As at fiscal year ends nearest to December 31, 1937.
(2) In addition 65,347 paid from Current Account.

ALL GOVERNMENTS

TABLE 6

COMPARATIVE BALANCE SHEET

1937 (1)

Thousands of Dollars

PROVINCIAL AND MUNICIPAL										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
307,075	524	11,302	7,442	83,293	56,462	24,689	44,923	32,466	45,974	1
114,305	—	—	6,251	17,020	40,633	—	—	11,444	38,957	2
658,956	242	18,076	13,274	96,331	384,852	60,555	29,785	35,984	19,857	3
—	—	—	—	—	—	—	—	—	—	4
1,038,809	3,881	62,235	62,713	246,704	426,614	34,557	46,602	53,869	101,634	5
—	—	—	—	—	—	—	—	—	—	6
683,915	3,274	18,120	12,137	247,532	195,917	57,614	37,610	54,150	57,561	7
168,080	37	1,014	989	33,360	45,730	16,132	45,192	13,140	12,486	8
27,174	37	460	463	685	10,125	4,384	7,227	2,761	1,032	9
307,972	140	3,013	1,835	86,490	99,370	18,469	57,419	12,733	28,503	10
4,094	—	—	120	1,693	—	1,707	—	574	—	11
—	—	—	—	—	—	—	—	—	—	12
—	—	—	—	—	—	—	—	—	—	13
—	—	—	—	—	—	—	—	—	—	14
54,380	66	646	837	20,819	10,836	2,696	2,894	6,810	8,776	15
58,474	*66*	*646*	*957*	*22,512*	*10,836*	*4,403*	*2,894*	*7,384*	*8,776*	16
3,364,760	8,201	114,866	106,061	833,927	1,270,539	220,803	271,652	223,931	314,780	17
133,328	319	1,931	3,668	74,081	15,551	11,293	1,972	2,888	30,069	18
3,231,432	**8,520**	**116,797**	**102,393**	**759,846**	**1,254,988**	**209,510**	**273,624**	**221,043**	**284,711**	19
2,716,585	6,957	108,248	88,165	699,982	1,113,823	162,551	154,054	166,423	216,382	20
233,027	—	2,250	5,865	9,500	49,000	33,496	65,786	27,607	39,523	21
242,654	1,459	6,276	8,118	49,187	84,527	13,201	27,844	23,389	28,653	22
36,643	104	18	245	1,177	7,638	262	23,886	3,160	153	23
2,523	—	5	—	—	—	—	2,054	464	—	24
3,231,432	**8,520**	**116,797**	**102,393**	**759,846**	**1,254,988**	**209,510**	**273,624**	**221,043**	**284,711**	25

ALL GOVERNMENTS

TABLE 7

OUTSTANDING DEBT

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31					
		1913	1921	1926	1930	1936	1937
	ALL GOVERNMENTS—						
1	DOMINION OF CANADA AND CANADIAN NATIONAL RAILWAYS	520,837	3,520,039	3,569,618	3,779,254	4,799,412	4,855,027
2	PROVINCES	284,968	633,342	951,491	1,246,054	1,836,225	1,960,291
3	MUNICIPALITIES	504,652	803,684	1,038,438	1,238,345	1,278,882	1,271,141
4	Sub-Total	*1,310,457*	*4,957,065*	*5,559,547*	*6,263,653*	*7,914,519*	*8,086,459*
	LESS INTER-GOVERNMENTAL DEBTS—						
5	Dominion-Provincial	11,536	49,692	61,476	58,927	177,866	193,728
6	Provincial-Municipal	946	24,576	33,269	30,937	29,123	30,000
7	NET OUTSTANDING DEBT	**1,297,975**	**4,882,797**	**5,464,802**	**6,173,789**	**7,707,530**	**7,862,731**
	PROVINCES AND MUNICIPALITIES—						
8	PRINCE EDWARD ISLAND—Provincial	962	1,240	2,080	2,830	5,571	5,922
9	Municipal	705	1,132	1,268	1,586	2,226	2,597
10	Sub-Total	*1,667*	*2,372*	*3,348*	*4,416*	*7,797*	*8,519*
11	NOVA SCOTIA—Provincial	11,681	21,828	38,561	55,364	84,477	93,097
12	Municipal	12,946	19,659	21,727	23,610	24,032	23,700
13	Sub-Total	*24,627*	*41,487*	*60,288*	*78,974*	*108,509*	*116,797*
14	NEW BRUNSWICK—Provincial	11,472	28,604	37,801	52,540	72,818	81,963
15	Municipal	6,689	11,762	15,792	16,867	20,935	20,430
16	Sub-Total	*18,161*	*40,366*	*53,593*	*69,407*	*93,753*	*102,393*
17	QUEBEC—Provincial	31,848	61,326	98,438	104,934	235,618	285,629
18	Municipal	139,200	218,932	279,799	353,751	463,741	474,217
19	Sub-Total	*171,048*	*280,258*	*378,237*	*458,685*	*699,359*	*759,846*
20	ONTARIO—Provincial	41,536	218,954	406,968	552,670	783,798	807,040
21	Municipal	131,348	291,936	423,461	511,650	468,236	447,948
22	Sub-Total	*172,884*	*510,890*	*830,429*	*1,064,320*	*1,252,034*	*1,254,988*
23	MANITOBA—Provincial	45,579	72,179	90,098	107,652	125,033	122,350
24	Municipal	43,619	69,823	91,216	95,279	86,123	87,160
25	Sub-Total	*89,198*	*142,002*	*181,314*	*202,931*	*211,156*	*209,510*
26	SASKATCHEWAN—Provincial	39,194	53,094	58,793	99,648	180,533	215,892
27	Municipal	37,627	49,493	55,380	64,027	57,741	57,732
28	Sub-Total	*76,821*	*102,587*	*114,173*	*163,675*	*238,274*	*273,624*
29	ALBERTA—Provincial	52,051	95,844	122,841	138,246	(1)170,478	(2)169,740
30	Municipal	61,568	60,432	65,322	66,267	51,848	51,304
31	Sub-Total	*113,619*	*156,276*	*188,163*	*204,513*	*222,326*	*221,044*
32	BRITISH COLUMBIA—Provincial	50,645	80,273	95,911	132,170	177,899	178,658
33	Municipal	70,950	80,515	84,473	105,308	104,000	106,053
34	Sub-Total	*121,595*	*160,788*	*180,384*	*237,478*	*281,899*	*284,711*

(1) Does not include 2,695 unpaid interest.

(2) Does not include unpaid interest estimated at 6,095.

ALL GOVERNMENTS

TABLE 8

OUTSTANDING DEBT

INCREASE OR DECREASE

Thousands of Dollars

Item No.	Year or Period	Combined Debt	Elimination of Increase or Decrease in Inter-Governmental Debt		Increase or Decrease before Elimination of Inter-Government Debt		
		Increase or Decrease	Dominion-Provincial	Provincial-Municipal	Dominion and C.N.R.	Provinces	Municipalities
1	1914-1921	3,584,822	38,156	23,630	2,999,202	348,374	299,032
2	1922-1924	549,356	10,194	9,000	104,798	259,882	203,870
3	1925	20,820	1,066	127	49,418	19,776	10,015
4	1926	53,469	524	434	5,801	38,491	20,869
5	1927	27,826	8,219	1,692	49,055	34,255	32,715
6	1928	43,428	1,430	1,466	28,915	55,241	17,066
7	1929	189,364	5,540	258	75,875	62,836	56,451
8	1930	448,369	1,300	568	211,731	142,231	93,675
9	1931	426,300	26,682	473	242,600	154,437	55,472
10	1932	269,636	25,441	490	157,675	94,217	42,695
11	1933	274,212	13,231	213	205,923	85,731	3,998
12	1934	263,127	27,499	28	170,171	117,429	2,998
13	1935	295,834	29,111	2,398	219,265	108,743	5,461
14	1936	16,759	3,025	1,362	24,524	29,614	39,042
15	1937	143,074	15,862	877	55,615	124,066	19,868
16		**6,564,756**	**182,192**	**29,054**	**4,334,190**	**1,675,323**	**766,489**

RECONCILIATION

17	Debt Outstanding, 1913	1,297,975	11,536	946	520,837	284,968	504,652
18	Increase, 1914-1937	6,564,756	182,192	29,054	4,334,190	1,675,323	766,489
19	Debt Outstanding, 1937	**7,862,731**	**193,728**	**30,000**	**4,855,027**	**1,960,291**	**1,271,141**

ALL GOVERNMENTS

TABLE 9

OVER-ALL SURPLUS OR DEFICIT

(Excluding debt retirement)

AS ADJUSTED FOR COMPARATIVE PURPOSES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	ALL GOVERNMENTS—					
1	Revenue, Current Account	276,771	640,064	750,817	788,922	995,213
2	Expenditure, Current Account (1)	253,207	636,405	633,117	836,095	(2)996,050
3	Surplus or Deficit, Current Account	23,564	3,659	117,700	47,173	837
4	Expenditure, Capital Account	188,637	181,109	151,635	284,719	180,729
5	Bank Loans and cash collection adjustment (3)	—	—	—	—	462
6	Over-all Deficit	165,073	177,450	33,935	331,892	182,028
	DOMINION OF CANADA AND CANADIAN NATIONAL RAILWAYS—					
7	Revenue, Current Account	135,203	332,508	360,290	314,043	464,324
8	Expenditure, Current Account (1)	118,294	354,467	282,545	387,844	478,168
9	Surplus or Deficit, Current Account	16,909	21,959	77,745	73,801	13,844
10	Expenditure, Capital Account	74,358	60,441	68,140	102,082	34,615
11	Over-all Surplus or Deficit	57,449	82,400	9,605	175,883	48,459
	PROVINCES—					
12	Revenue, Current Account	44,935	90,400	133,757	173,823	244,474
13	Expenditure, Current Account (1)	47,381	90,653	124,559	183,400	(2)258,500
14	Surplus or Deficit Current Account	2,446	253	9,198	9,577	14,026
15	Expenditure, Capital Account	29,129	62,309	32,126	86,125	118,419
16	Over-all Deficit	31,575	62,562	22,928	95,702	132,445
	MUNICIPALITIES—					
17	Revenue, Current Account	109,875	230,387	270,832	317,155	309,065
18	Expenditure, Current Account (1)	100,398	204,883	240,311	285,728	282,037
19	Surplus, Current Account	9,477	25,504	30,521	31,427	27,028
20	Expenditure, Capital Account	85,150	58,359	51,367	96,511	27,695
21	Bank Loans and cash collection adjustment (3)	—	—	—	—	462
22	Over-all Deficit	75,673	32,855	20,846	65,084	1,129
	Not included in the above— DEBT RETIREMENT CHARGED TO CURRENT ACCOUNT—					
23	Dominion	—	—	—	—	—
24	Provinces	777	2,634	4,590	5,256	6,271
25	Municipalities	6,575	15,430	20,656	27,376	29,260
26	TOTAL	7,352	18,064	25,246	32,632	35,531
	INTER-GOVERNMENTAL ELIMINATIONS					
27	Revenue, Current Account	13,242	13,231	14,062	16,099	22,650
28	Expenditure, Current Account	12,866	13,598	14,298	20,877	22,655
29	Amount included in Dominion current expenditures but not in provincial current revenues—Natural Resources Award, Manitoba	—	—	—	4,584	—
30	Amounts included in Dominion capital expenditures but not in provincial capital revenues	—	—	2	1	—
31	Other accounts	—	—	2	1	—
32	Variation, due to difference in fiscal year ends	376	367	236	194	5

(1) Excludes debt retirement. (2) Excludes unpaid interest, Alberta, estimated at 3,400. (3) For year 1937 only.

PROVINCIAL AND MUNICIPAL GOVERNMENTS
(COMBINED)

TABLE 10

OVER-ALL SURPLUS OR DEFICIT

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	ALL PROVINCES AND MUNICIPALITIES—					
1	Revenue, Current Account	154,810	320,787	404,589	490,978	553,539
2	Expenditure, Current Account	147,779	295,536	364,870	469,128	(1)540,537
3	Surplus, Current Account	7,031	25,251	39,719	21,850	13,002
4	Expenditure, Capital Account	114,279	120,668	83,493	182,636	146,114
5	Bank Loans and cash collection adjustment	*	*	*	*	462
6	Over-all Deficit	107,248	95,417	43,774	160,786	133,574
	PRINCE EDWARD ISLAND—					
7	Revenue, Current Account	672	1,115	1,248	1,543	2,058
8	Expenditure, Current Account	594	1,014	1,149	1,491	1,983
9	Surplus, Current Account	78	101	99	52	75
10	Expenditure, Capital Account	59	373	98	372	770
11	Over-all Surplus or Deficit	19	272	1	320	695
	NOVA SCOTIA—					
12	Revenue, Current Account	4,674	10,416	11,765	15,219	19,287
13	Expenditure, Current Account	4,588	10,226	11,804	14,577	18,295
14	Surplus or Deficit, Current Account	86	190	39	642	992
15	Expenditure, Capital Account	705	4,712	2,136	3,508	9,732
16	Bank Loans and cash collection adjustment	*	*	*	*	31
17	Over-all Deficit	619	4,522	2,175	2,866	8,771
	NEW BRUNSWICK—					
18	Revenue, Current Account	3,212	7,014	9,689	12,039	14,128
19	Expenditure, Current Account	3,134	7,523	9,378	11,798	12,841
20	Surplus or Deficit, Current Account	78	509	311	241	1,287
21	Expenditure, Capital Account	755	1,463	3,142	8,058	10,213
22	Bank Loans and cash collection adjustment	*	*	*	*	500
23	Over-all Deficit	677	1,972	2,831	7,817	9,426
	QUEBEC—					
24	Revenue, Current Account	29,393	66,199	89,185	114,564	141,156
25	Expenditure, Current Account	28,760	54,071	78,002	105,406	148,437
26	Surplus or Deficit, Current Account	633	12,128	11,183	9,158	7,281
27	Expenditure, Capital Account	11,381	13,292	22,201	45,127	34,982
28	Over-all Deficit	10,748	1,164	11,018	35,969	42,263

* Information not available.

(1) Excludes unpaid interest, Alberta, estimated at 3,400.

PROVINCIAL AND MUNICIPAL GOVERNMENTS
(COMBINED)

TABLE 10
(Concluded)

OVER-ALL SURPLUS OR DEFICIT

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	ONTARIO—					
1	Revenue, Current Account	48,385	111,944	150,037	188,650	212,740
2	Expenditure, Current Account	44,869	104,747	139,471	174,681	191,791
3	Surplus, Current Account	3,516	7,197	10,566	13,969	20,949
4	Expenditure, Capital Account	25,703	50,041	32,891	73,170	53,389
5	Over-all Deficit	22,187	42,844	22,325	59,201	32,440
	MANITOBA—					
6	Revenue, Current Account	15,303	29,268	31,277	34,501	35,314
7	Expenditure, Current Account	13,715	26,562	27,224	33,783	34,956
8	Surplus, Current Account	1,588	2,706	4,053	718	358
9	Expenditure, Capital Account	8,397	19,048	3,802	4,651	3,051
10	Bank Loans and cash collection adjustment	*	*	*	*	2,613
11	Over-all Surplus or Deficit	6,809	16,342	251	3,933	80
	SASKATCHEWAN—					
12	Revenue, Current Account	16,656	34,617	37,229	41,210	38,136
13	Expenditure, Current Account	15,342	30,791	32,826	43,334	46,491
14	Surplus or Deficit, Current Account	1,314	3,826	4,403	2,124	8,355
15	Expenditure, Capital Account	9,656	10,574	3,881	23,452	23,960
16	Bank Loans and cash collection adjustment	*	*	*	*	4,103
17	Over-all Surplus or Deficit	8,342	6,748	522	25,576	36,418
	ALBERTA—					
18	Revenue, Current Account	14,785	27,647	34,459	36,478	38,788
19	Expenditure, Current Account	12,230	27,037	29,367	37,338	(1)34,787
20	Surplus or Deficit, Current Account	2,555	610	5,092	860	4,001
21	Expenditure, Capital Account	24,673	15,911	8,090	11,753	3,006
22	Bank Loans and cash collection adjustment	*	*	*	*	569
23	Over-all Surplus or Deficit	22,118	15,301	2,998	12,613	1,564
	BRITISH COLUMBIA—					
24	Revenue, Current Account	21,730	32,567	39,700	46,774	51,932
25	Expenditure, Current Account	24,547	33,565	35,649	46,720	50,956
26	Surplus or Deficit, Current Account	2,817	998	4,051	54	976
27	Expenditure, Capital Account	32,950	5,254	7,252	12,545	7,011
28	Bank Loans and cash collection adjustment	*	*	*	*	990
29	Over-all Deficit	35,767	6,252	3,201	12,491	5,045

* Information not available.
(1) Excludes unpaid interest estimated at 3,400.

PROVINCIAL GOVERNMENTS

TABLE 11

OVER-ALL SURPLUS OR DEFICIT

As adjusted for comparative purposes

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1913	1921	1926	1930	1933	1937
	ALL PROVINCES—						
1	Revenue, Current Account (1)	44,935	90,400	133,757	173,823	150,283	244,474
2	Expenditure, Current Account (1)	47,381	90,653	124,559	183,400	198,942	(2)258,500
3	Surplus or Deficit, Current Account	2,446	253	9,198	9,577	48,659	14,026
4	Expenditure, Capital Account	29,129	62,309	32,126	86,125	24,543	118,419
5	Over-all Deficit	31,575	62,562	22,928	95,702	73,202	(2)132,445
	PRINCE EDWARD ISLAND—						
6	Revenue, Current Account (1)	518	791	868	1,114	1,161	1,586
7	Expenditure, Current Account (1)	445	705	800	1,074	1,152	1,466
8	Surplus, Current Account	73	86	68	40	9	120
9	Expenditure, Capital Account	41	188	48	277	283	470
10	Over-all Surplus or Deficit	32	102	20	237	274	350
	NOVA SCOTIA—						
11	Revenue, Current Account (1)	1,678	3,344	3,987	6,918	6,233	10,112
12	Expenditure, Current Account (1)	1,654	3,565	4,960	6,737	8,189	9,805
13	Surplus or Deficit, Current Account	24	221	973	181	1,956	307
14	Expenditure, Capital Account	252	2,816	1,151	2,373	3,181	9,345
15	Over-all Deficit	228	3,037	2,124	2,192	5,137	9,038
	NEW BRUNSWICK—						
16	Revenue, Current Account (1)	1,407	2,729	4,064	6,304	5,007	7,543
17	Expenditure, Current Account (1)	1,354	3,393	3,958	6,383	5,792	7,186
18	Surplus or Deficit, Current Account	53	664	106	79	785	357
19	Expenditure, Capital Account	692	1,484	1,587	7,492	942	9,819
20	Over-all Deficit	639	2,148	1,481	7,571	1,727	9,462
	QUEBEC—						
21	Revenue, Current Account (1)	8,493	20,749	31,060	42,603	30,401	56,888
22	Expenditure, Current Account (1)	7,960	12,833	24,405	39,585	45,660	67,459
23	Surplus or Deficit, Current Account	533	7,916	6,655	3,018	15,259	10,571
24	Expenditure, Capital Account	3,831	6,856	7,218	12,682	5,711	34,543
25	Over-all Surplus or Deficit	3,298	1,060	563	9,664	20,970	45,114

(1) Less refunds. (2) Excludes unpaid interest, Province of Alberta, estimated at 3,400.

PROVINCIAL GOVERNMENTS

TABLE 11
(*Concluded*)

OVER-ALL SURPLUS OR DEFICIT

As adjusted for comparative purposes

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1913	1921	1926	1930	1933	1937
	ONTARIO—						
1	Revenue, Current Account (1)	9,300	21,716	38,283	55,284	52,093	87,104
2	Expenditure, Current Account (1)	10,455	22,243	38,975	56,315	65,113	83,752
3	Surplus or Deficit, Current Account	1,155	527	692	1,031	13,020	3,352
4	Expenditure, Capital Account	2	19,167	13,842	27,487	13,664	32,997
5	Over-all Deficit	1,153	19,694	14,534	28,518	26,684	29,645
	MANITOBA—						
6	Revenue Current Account (1)	4,081	7,337	10,287	11,191	12,061	15,247
7	Expenditure, Current Account (1)	3,608	8,225	8,984	12,424	14,527	15,056
8	Surpus or Deficit, Current Account	473	888	1,303	1,233	2,466	191
9	Expenditure, Capital Account	2,563	8,936	1,257	3,963	323	148
10	Over-all Surplus or Deficit	2,090	9,824	46	5,196	2,143	43
	SASKATCHEWAN—						
11	Revenue, Current Account (1)	(2)5,842	9,361	12,577	13,025	11,547	16,902
12	Expenditure, Current Account (1)	5,413	11,415	10,893	18,777	(3)19,842	28,717
13	Surplus or Deficit, Current Account	429	2,054	1,684	5,752	8,295	11,815
14	Expenditure, Capital Account	3,184	4,739	1,614	14,265	55	23,960
15	Over-all Surplus or Deficit	2,755	6,793	70	20,017	8,350	35,775
	ALBERTA—						
16	Revenue, Current Account (1)	3,462	7,779	10,770	13,385	12,191	18,199
17	Expenditure, Current Account (1)	3,182	10,621	11,549	15,931	16,011	(4)15,663
18	Surplus or Deficit, Current Account	280	2,842	779	2,546	3,820	(4)2,536
19	Expenditure, Capital Account	2,057	11,745	2,701	8,281	898	2,233
20	Over-all Surplus or Deficit	1,777	14,587	3,480	10,827	4,718	(4)303
	BRITISH COLUMBIA—						
21	Revenue, Current Account (1)	10,154	16,594	21,861	23,999	19,589	30,893
22	Expenditure, Current Account (1)	13,310	17,653	20,035	26,174	22,656	29,396
23	Surplus or Deficit, Current Account	3,156	1,059	1,826	2,175	3,067	1,497
24	Expenditure, Capital Account	16,511	6,378	2,708	9,305	132	4,904
25	Over-all Deficit	19,667	7,437	882	11,480	3,199	3,407

(1) Less refunds. (2) Fourteen month period.
(3) Includes relief expenditure financed and subsequently assumed by the Dominion of Canada, amounting to 2,239.
(4) Excluding interest unpaid estimated at 3,400.

ALL GOVERNMENTS

TABLE 12

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

AS ADJUSTED FOR COMPARATIVE PURPOSES

Thousands of Dollars

Item No.	REVENUE	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	TAXES—					
1	Customs Import Duties (1)	104,691	105,687	141,969	131,209	112,077
2	Excise Taxes (2)	21,452	36,755	48,513	57,747	52,037
3	Manufacturers Taxes	—	6,639	11,053	10,474	17,185
4	Sales Taxes	—	61,273	81,196	20,147	144,360
	Corporation Taxes—					
5	Income and Business Profits	138	64,119	32,952	48,653	84,964
6	Other	3,352	11,051	14,581	15,828	20,780
7	Income Taxes on Persons	157	40,379	22,838	32,642	64,351
8	Succession Duties	3,611	9,724	15,304	20,780	35,757
9	Gasoline Taxes	—	—	6,411	23,487	38,906
10	Real Property Taxes	92,067	199,376	228,640	263,826	250,811
11	Amusement Taxes	—	3,032	4,910	4,525	2,838
12	Other Taxes	8,199	25,295	32,701	27,825	30,733
13	Sub-Total—Taxes	*233,667*	*563,330*	*641,068*	*657,143*	*854,799*
	LICENCES, PERMITS AND FEES—					
14	Motor Vehicles, automobile licences	470	8,381	16,014	19,907	25,937
15	Other Licences, Permits and Fees	12,580	17,646	20,824	23,310	21,024
16	Sub-Total—Licences, Permits and Fees	*13,050*	*26,027*	*36,838*	*43,217*	*46,961*
17	PUBLIC DOMAIN	14,466	18,328	23,686	19,334	23,619
18	LIQUOR CONTROL (3)	2,248	7,856	17,592	30,985	29,798
19	SALE OF COMMODITIES AND SERVICES	2,633	4,260	6,651	7,075	13,409
20	OTHER CURRENT REVENUES	10,707	20,263	24,982	31,168	26,627
21	TOTAL CURRENT REVENUE	**276,771**	**640,064**	**750,817**	**788,922**	**995,213**
	EXPENDITURE					
22	NET DEBT SERVICE, excluding debt retirement	34,794	202,475	190,958	232,522	(4)271,339
23	NATIONAL DEFENCE	13,781	17,249	14,454	23,256	33,614
24	PENSIONS AND AFTERCARE	94	53,688	44,503	55,341	54,437
	PUBLIC WELFARE—					
25	Relief	—	916	168	11,753	126,627
26	Other	15,121	35,218	43,294	72,129	124,383
27	EDUCATION	37,515	88,057	107,231	119,191	108,899
28	HIGHWAYS AND TRANSPORTATION	56,663	80,747	63,838	99,570	73,750
29	PUBLIC DOMAIN	12,820	17,298	20,045	29,236	24,258
30	AGRICULTURE	5,583	9,424	9,944	15,248	14,287
31	OTHER CURRENT EXPENDITURES	76,836	131,333	138,682	177,849	164,456
32	TOTAL CURRENT EXPENDITURE, excluding debt retirement	**253,207**	**636,405**	**633,117**	**836,095**	**996,050**
33	SURPLUS OR DEFICIT, excluding debt retirement	**23,564**	**3,659**	**117,700**	**47,173**	**837**
	(1) Includes Customs Import Duties on liquor	9,935	10,574	16,433	20,094	6,786
	(2) Includes Excise Duties and Taxes on liquor	11,211	10,994	23,258	23,154	20,351
		21,146	21,568	39,691	43,248	27,137

(3) Provincial; see footnotes (1) and (2) above.

(4) Does not include unpaid interest, Alberta, estimated at 3,400.

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1913 (1)

Thousands of Dollars

Item No.	REVENUE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
	TAXES—						
1	Customs Import Duties	104,691	—	—	(2)104,691	—	—
2	Excise Duties	21,452	—	—	(3) 21,452	—	—
3	Manufacturers Taxes	—	—	—	—	—	—
4	Sales Taxes	—	—	—	—	—	—
	Corporation Taxes—						
5	Income Taxes	138	—	—	—	138	—
6	Other	3,352	—	—	—	3,352	—
7	Income Taxes on Persons	157	—	—	—	119	38
8	Succession Duties	3,611	—	—	—	3,611	—
9	Gasoline Taxes	—	—	—	—	—	—
10	Real Property Taxes	92,067	—	—	—	1,753	90,314
11	Amusement Taxes	—	—	—	—	—	—
12	Other Taxes	8,199	—	—	1,335	347	6,517
13	Sub-Total—Taxes	*233,667*	—	—	*127,478*	*9,320*	*96,869*
	LICENCES, PERMITS AND FEES—						
14	Motor Vehicles, automobile licences	470	—	—	—	470	—
15	Other Licences, Permits and Fees	12,580	—	—	1,194	6,382	5,004
16	Sub-Total—Licences, Permits and Fees	*13,050*	—	—	*1,194*	*6,852*	*5,004*
17	PUBLIC DOMAIN	14,466	—	—	3,420	11,046	—
18	LIQUOR CONTROL	2,248	—	—	—	2,248	—
	SALE OF COMMODITIES AND SERVICES—						
19	Post Office	133	—	12,822	12,955	—	—
20	Other Services	2,195	—	—	1,380	815	—
21	Public Utility Contributions	305	—	—	—	—	305
22	SUBSIDIES	—	12,851	—	—	12,851	—
	REFUNDS—						
23	From Municipalities	—	—	34	—	34	—
24	Other	—	—	1,521	76	1,445	—
25	OTHER CURRENT REVENUES	10,707	391	—	1,598	1,803	7,697
26	Sub-Total	*276,771*	*13,242*	*14,377*	*148,101*	*46,414*	*109,875*
	DISTRIBUTION OF REFUNDS—						
27	Post Office	—	—	12,822	12,822	—	—
28	Municipal	—	—	34	—	34	—
29	Other	—	—	1,521	76	1,445	—
30	Sub-Total	—	—	14,377	12,898	1,479	—
31	NET CURRENT REVENUES	276,771	13,242	—	135,203	44,935	109,875

(1) For the fiscal years ended nearest to December 31, 1913.
(2) Of which 9,935 on liquor.
(3) Of which 11,211 on liquor.

ALL GOVERNMENTS

TABLE 13

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1913 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL REVENUE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
—	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	—	—	—	4
138	—	—	—	—	—	—	—	—	138	5
3,352	14	66	60	943	894	349	258	171	597	6
157	13	38	—	—	—	—	—	—	106	7
3,611	6	53	98	1,605	1,146	268	74	67	294	8
—	—	—	—	—	—	—	—	—	—	9
92,067	124	2,033	1,105	16,450	31,071	9,650	10,736	9,883	11,015	10
—	—	—	—	—	—	—	—	—	—	11
6,864	68	577	535	1,504	3,203	500	100	125	252	12
106,189	*225*	*2,767*	*1,798*	*20,502*	*36,314*	*10,767*	*11,168*	*10,246*	*12,402*	13
470	1	—	11	123	106	35	49	46	99	14
11,386	40	135	82	2,141	3,191	861	1,779	1,568	1,589	15
11,856	*41*	*135*	*93*	*2,264*	*3,297*	*896*	*1,828*	*1,614*	*1,688*	16
11,046	7	853	502	1,866	2,887	427	49	57	4,398	17
2,248	2	—	43	794	902	162	218	127	—	18
—	—	—	—	—	—	—	—	—	—	19
815	—	—	3	47	18	47	461	155	84	20
305	—	—	—	—	—	100	—	205	—	21
12,851	382	637	638	1,969	2,396	1,451	2,115	1,261	2,002	22
34	—	—	—	34	—	—	—	—	—	23
1,445	18	—	—	150	69	13	222	973	—	24
9,500	15	282	135	1,951	2,571	1,453	817	1,120	1,156	25
156,289	*690*	*4,674*	*3,212*	*29,577*	*48,454*	*15,316*	*16,878*	*15,758*	*21,730*	26
—	—	—	—	—	—	—	—	—	—	27
34	—	—	—	34	—	—	—	—	—	28
1,445	18	—	—	150	69	13	222	973	—	29
1,479	*18*	—	—	*184*	*69*	*13*	*222*	*973*	—	30
154,810	672	4,674	3,212	29,393	48,385	15,303	16,656	14,785	21,730	31

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1913 (1)

Thousands of Dollars

Item No.	EXPENDITURE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
1	NET DEBT SERVICE, excluding sinking fund	34,794	564	951	12,213	3,255	19,713
2	NATIONAL DEFENCE	13,781	—	31	13,812	—	—
3	PENSIONS AND AFTERCARE	94	—	—	94	—	—
	PUBLIC WELFARE—						
4	Relief	—	—	—	—	—	—
5	Other	15,121	—	—	2,617	4,343	8,161
6	EDUCATION	37,515	—	—	215	9,600	27,700
7	HIGHWAYS AND TRANSPORTATION	56,663	2,134	113	35,467	8,744	14,699
8	PUBLIC DOMINION	12,820	16	125	7,707	5,254	—
9	AGRICULTURE	5,583	—	18	3,278	2,323	—
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES—						
10	Administration of Justice	8,361	—	39	3,585	4,815	30,125
11	Legislation	3,456	—	—	1,601	1,855	
12	General Government	28,459	—	66	22,051	6,474	
13	Other Current Expenditures	36,560	—	212	4,450	2,197	
14	Sub-Total	*76,836*	—	*317*	*31,687*	*15,341*	*30,125*
15	SUBSIDIES TO PROVINCES	—	11,280	—	11,280	—	—
16	POST OFFICE	—	—	12,822	12,822	—	—
17	Sub-Total	*253,207*	*12,866*	*14,377*	*131,192*	*48,860*	*100,398*
	DISTRIBUTION OF REFUNDS—						
18	Net Debt Service	—	—	951	—	951	—
19	National Defence	—	—	31	31	—	—
20	Highways and Transportation	—	—	113	—	113	—
21	Public Domain	—	—	125	—	125	—
22	Agriculture	—	—	18	—	18	—
23	General Expenditures	—	—	317	45	272	—
24	Post Office	—	—	12,822	12,822	—	—
25	Sub-Total	—	—	*14,377*	*12,898*	*1,479*	—
26	NET CURRENT EXPENDITURES, excluding debt retirement	253,207	12,866	—	118,294	47,381	100,398

(1) For the fiscal years ended nearest to December 31, 1913.

ALL GOVERNMENTS

TABLE 13

(*Concluded*)

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1913 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL EXPENDITURE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
22,968	62	811	507	5,486	5,888	2,459	2,017	2,758	2,980	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	—	—	—	4
12,504	57	578	315	2,440	3,672	1,606	967	770	2,099	5
37,300	216	1,471	892	6,593	13,882	3,100	3,825	3,896	3,425	6
23,443	124	643	642	4,218	5,765	1,295	2,231	1,282	7,243	7
5,254	6	18	76	738	2,510	92	92	81	1,641	8
2,323	18	79	59	421	393	87	653	330	283	9
4,815	26	11	42	1,257	910	371	688	503	1,007	10
1,855	13	92	41	424	370	169	227	368	151	11
6,474	61	126	117	1,029	1,151	542	897	836	1,715	12
32,322	29	759	443	6,338	10,397	4,007	3,967	2,379	4,003	13
45,466	*129*	*988*	*643*	*9,048*	*12,828*	*5,089*	*5,779*	*4,086*	*6,876*	14
—	—	—	—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	—	—	—	16
149,258	*612*	*4,588*	*3,134*	*28,944*	*44,938*	*13,728*	*15,564*	*13,203*	*24,547*	17
951	—	—	—	—	—	—	—	951	—	18
—	—	—	—	—	—	—	—	—	—	19
113	—	—	—	113	—	—	—	—	—	20
125	—	—	—	—	61	—	64	—	—	21
18	18	—	—	—	—	—	—	—	—	22
272	—	—	—	71	8	13	158	22	—	23
—	—	—	—	—	—	—	—	—	—	24
1,479	*18*	—	—	*184*	*69*	*13*	*222*	*973*	—	25
147,779	594	4,588	3,134	28,760	44,869	13,715	15,342	12,230	24,547	26

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1921 (1)

Thousands of Dollars

Item No.	REVENUE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
	TAXES—						
1	Customs Import Duties	**105,687**	—	—	(2)105,687	—	—
2	Excise Duties	**36,755**	—	—	(3)36,755	—	—
3	Manufacturers Taxes	**6,639**	—	—	6,639	—	—
4	Sales Taxes	**61,273**	—	—	61,273	—	—
	Corporation Taxes—						
5	Income and Business Profits	**64,119**	—	—	61,680	2,439	—
6	Other	**11,051**	—	—	2,328	8,723	—
7	Income Taxes on Persons	**40,379**	—	—	39,821	485	73
8	Succession Duties	**9,724**	—	—	—	9,724	—
9	Gasoline Taxes	—	—	—	—	—	—
10	Real Property Taxes	**199,376**	—	—	—	9,720	189,656
11	Amusement Taxes	**3,032**	—	—	—	3,032	—
12	Other Taxes	**25,295**	—	—	6,140	1,199	17,956
13	Sub-Total—Taxes	*563,330*	—	—	*320,323*	*35,322*	*207,685*
	LICENCES, PERMITS AND FEES—						
14	Motor Vehicles, automobile licences	**8,381**	—	—	—	8,381	—
15	Other Licences, Permits and Fees	**17,646**	—	—	2,595	7,041	8,010
16	Sub-Total—Licences, Permits and Fees	*26,027*	—	—	*2,595*	*15,422*	*8,010*
17	PUBLIC DOMAIN	**18,328**	—	—	3,542	14,786	—
18	LIQUOR CONTROL	**7,856**	—	—	—	7,856	—
	SALE OF COMMODITIES AND SERVICES—						
19	Post Office	—	—	26,402	26,402	—	—
20	Other Services	**3,105**	—	—	2,358	747	—
21	Public Utility Contributions	**1,155**	—	—	—	—	1,155
22	SUBSIDIES	—	11,865	—	—	11,865	—
	REFUNDS—						
23	From Municipalities	—	—	287	—	287	—
24	Other	—	—	922	476	446	—
25	OTHER CURRENT REVENUES	**20,263**	1,366	—	3,690	4,402	13,537
26	Sub-Total	*640,064*	*13,231*	*27,611*	*359,386*	*91,133*	*230,387*
	DISTRIBUTION OF REFUNDS—						
27	Post Office	—	—	26,402	26,402	—	—
28	Refunds from Municipalities	—	—	287	—	287	—
29	Other	—	—	922	476	446	—
30	Sub-Total	—	—	*27,611*	*26,878*	*733*	—
31	NET CURRENT REVENUES	**640,064**	13,231	—	**332,508**	**90,400**	**230,387**

(1) For the fiscal years ended nearest to December 31, 1921.
(2) Of which 10,574 on liquor.
(3) Of which 10,994 on liquor.

ALL GOVERNMENTS

TABLE 14

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1921 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL REVENUE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
—	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	—	—	—	4
2,439	—	—	—	169	184	276	—	—	1,810	5
8,723	33	541	253	2,051	3,052	737	604	465	987	6
558	50	73	—	—	—	—	—	—	435	7
9,724	11	159	151	3,005	4,822	457	309	177	633	8
—	—	—	—	—	—	—	—	—	—	9
199,376	315	5,713	2,761	37,050	74,058	21,237	24,413	18,499	15,330	10
3,032	5	180	65	405	1,553	325	—	181	318	11
19,155	171	1,102	1,440	3,388	9,173	900	1,130	930	921	12
243,007	*585*	*7,768*	*4,670*	*46,068*	*92,842*	*23,932*	*26,456*	*20,252*	*20,434*	13
8,381	38	378	274	1,983	2,946	539	701	719	803	14
15,051	45	276	131	3,870	3,567	1,237	2,721	1,633	1,571	15
23,432	*83*	*654*	*405*	*5,853*	*6,513*	*1,776*	*3,422*	*2,352*	*2,374*	16
14,786	—	739	1,107	4,440	3,725	256	151	456	3,912	17
7,856	49	75	34	4,398	349	80	58	252	2,629	18
—	—	—	—	—	—	—	—	—	—	19
747	—	—	5	65	332	119	54	32	140	20
1,155	—	—	—	—	470	200	—	485	—	21
11,865	382	637	638	2,256	2,396	1,471	1,753	1,622	710	22
287	—	—	—	31	100	—	67	89	—	23
446	5	—	—	172	91	41	32	105	—	24
17,939	16	543	223	3,119	5,317	1,434	2,723	2,196	2,368	25
321,520	*1,120*	*10,416*	*7,014*	*66,402*	*112,135*	*29,309*	*34,716*	*27,841*	*32,567*	26
—	—	—	—	—	—	—	—	—	—	27
287	—	—	—	31	100	—	67	89	—	28
446	5	—	—	172	91	41	32	105	—	29
733	*5*	—	—	*203*	*191*	*41*	*99*	*194*	—	30
320,787	1,115	10,416	7,014	66,199	111,944	29,268	34,617	27,647	32,567	31

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1921 (1)

Thousands of Dollars

Item No.	EXPENDITURE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
1	NET DEBT SERVICE, excluding sinking fund	202,475	1,341	5	152,488	14,389	36,944
2	NATIONAL DEFENCE	17,249	—	132	17,381	—	—
3	PENSIONS AND AFTERCARE	53,688	—	—	53,688	—	—
	PUBLIC WELFARE—						
4	Relief	916	—	—	500	416	—
5	Other	35,218	—	112	4,411	12,133	18,786
6	EDUCATION	88,057	3	—	924	20,850	66,280
7	HIGHWAYS AND TRANSPORTATION	80,747	—	179	41,666	8,298	30,962
8	PUBLIC DOMINION	17,298	48	54	11,914	5,486	—
9	AGRICULTURE	9,424	—	399	5,992	3,831	—
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES—						
10	Administration of Justice	14,374	—	37	6,870	7,541	51,911
11	Legislation	6,677	—	—	4,176	2,501	
12	General Government	48,109	—	38	36,189	11,958	
13	Other Current Expenditures	58,128	—	253	2,487	3,983	
14	Sub-Total	*127,288*	—	*328*	*49,722*	*25,983*	*51,911*
15	SUBSIDIES TO PROVINCES	—	12,212	—	12,212	—	—
16	POST OFFICE	4,045	—	26,402	30,447	—	—
17	Sub-Total	*636,405*	*13,598*	*27,611*	*381,345*	*91,386*	*204,883*
	DISTRIBUTION OF REFUNDS—						
18	Net Debt Service	—	—	5	—	5	—
19	National Defence	—	—	132	132	—	—
20	Other Public Welfare	—	—	112	—	112	—
21	Highways and Transportation	—	—	179	—	179	—
22	Public Domain	—	—	54	—	54	—
23	Agriculture	—	—	399	310	89	—
24	General Expenditures	—	—	328	34	294	—
25	Post Office	—	—	26,402	26,402	—	—
26	Sub-Total	—	—	*27,611*	*26,878*	*733*	—
27	NET CURRENT EXPENDITURES, excluding debt retirement	636,405	13,598	—	354,467	90,653	204,883

(1) For the fiscal years ended nearest to December 31, 1921.

ALL GOVERNMENTS

TABLE 14

(*Concluded*)

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1921 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL EXPENDITURE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
51,333	106	1,314	1,442	12,540	14,831	4,772	3,849	5,562	6,917	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
416	—	—	—	—	—	79	46	—	291	4
30,919	131	1,234	1,032	3,882	12,989	3,358	2,825	2,212	3,256	5
87,130	393	3,576	1,832	13,868	31,371	8,270	12,058	8,911	6,851	6
39,260	159	1,775	1,314	6,174	14,502	2,711	3,746	3,955	4,924	7
5,486	—	20	277	1,541	1,366	82	96	121	1,983	8
3,831	28	146	73	1,112	835	274	602	420	341	9
7,541	25	32	138	1,780	1,624	834	1,198	1,188	722	10
2,501	25	119	72	592	388	192	440	500	173	11
11,958	91	288	261	2,050	3,490	1,073	1,489	1,356	1,860	12
55,894	61	1,722	1,082	10,735	23,542	4,958	4,541	3,006	6,247	13
77,894	*202*	*2,161*	*1,553*	*15,157*	*29,044*	*7,057*	*7,668*	*6,050*	*9,002*	14
—	—	—	—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	—	—	—	16
296,269	*1,019*	*10,226*	*7,523*	*54,274*	*104,938*	*26,603*	*30,890*	*27,231*	*33,565*	17
5	—	—	—	5	—	—	—	—	—	18
—	—	—	—	—	—	—	—	—	—	19
112	—	—	—	—	23	—	—	89	—	20
179	—	—	—	91	77	—	11	—	—	21
54	—	—	—	—	54	—	—	—	—	22
89	5	—	—	28	—	—	56	—	—	23
294	—	—	—	79	37	41	32	105	—	24
—	—	—	—	—	—	—	—	—	—	25
733	*5*	—	—	*203*	*191*	*41*	*99*	*194*	—	26
295,536	**1,014**	**10,226**	**7,523**	**54,071**	**104,747**	**26,562**	**30,791**	**27,037**	**33,565**	27

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1926 (1)

Thousands of Dollars

Item No.	REVENUE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
	TAXES—						
1	Customs Import Duties	141,969	—	—	(2)141,969	—	—
2	Excise Duties	48,513	—	—	(3)48,513	—	—
3	Manufacturers Taxes	11,053	—	1,549	12,602	—	—
4	Sales Taxes	81,196	—	—	81,196	—	—
	Corporation Taxes—						
5	Income and Business Profits	32,952	—	—	30,053	2,899	—
6	Other	14,581	—	—	2,458	12,123	—
7	Income Taxes on Persons	22,838	—	—	18,043	1,517	3,278
8	Succession Duties	15,304	—	—	—	15,304	—
9	Gasoline Taxes	6,411	—	—	—	6,411	—
10	Real Property Taxes	228,640	—	—	—	10,000	218,640
11	Amusement Taxes	4,910	—	—	—	4,910	—
12	Other Taxes	32,701	—	—	12,186	2,118	18,397
13	*Sub-Total—Taxes*	*641,068*	—	*1,549*	*347,020*	*55,282*	*240,315*
	LICENCES, PERMITS AND FEES—						
14	Motor Vehicles, automobile licences	16,014	—	—	—	16,014	(4)
15	Other Licences, Permits and Fees	20,824	—	206	3,535	7,818	9,677
16	*Sub-Total—Licences, Permits and Fees*	*36,838*	—	*206*	*3,535*	*23,832*	*9,677*
17	PUBLIC DOMAIN	23,686	—	—	4,000	19,686	—
18	LIQUOR CONTROL	17,592	—	—	—	17,592	—
	SALE OF COMMODITIES AND SERVICES—						
19	Post Office	—	—	29,069	29,069	—	—
20	Other Services	3,785	—	—	2,879	906	—
21	Public Utility Contributions	2,866	—	—	—	—	2,866
22	SUBSIDIES	—	12,517	—	—	12,517	—
	REFUNDS—						
23	From Municipalities	—	—	1,356	—	1,356	—
24	Other	—	—	3,111	2,071	1,040	—
25	OTHER CURRENT REVENUES	24,982	1,545	1,934	2,677	3,942	17,974
26	*Sub-Total*	*750,817*	*14,062*	*33,357*	*391,251*	*136,153*	*270,832*
	DISTRIBUTION OF REFUNDS—						
27	Post Office	—	—	29,069	29,069	—	—
28	Radio Licences	—	—	206	206	—	—
29	Remission of Excise Tax on unsold Automobiles	—	—	1,549	1,549	—	—
30	Refunds from Municipalities	—	—	1,356	—	1,356	—
31	Other (less credit to Other Current Revenues)	—	—	1,177	137	1,040	—
32	*Sub-Total*	—	—	*33,357*	*30,961*	*2,396*	—
33	NET CURRENT REVENUES	750,817	14,062	—	360,290	133,757	270,832

(1) For the fiscal years ended nearest to December 31, 1926.
(2) Of which 16,433 on liquor.
(3) Of which 23,258 on liquor.
(4) Particulars not available; included with Item 15.

ALL GOVERNMENTS

TABLE 15

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1926 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL REVENUE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
—	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	—	—	—	4
2,899	—	—	—	142	411	—	—	—	2,346	5
12,123	116	779	644	2,577	3,425	1,103	865	857	1,757	6
4,795	66	45	—	—	3,121	562	—	112	889	7
15,304	19	470	294	3,691	8,762	757	290	254	767	8
6,411	32	124	118	1,211	3,376	446	—	424	680	9
228,640	353	6,128	3,870	45,575	91,272	19,604	22,915	21,865	17,058	10
4,910	5	114	54	775	2,877	444	—	201	440	11
20,515	82	1,425	1,620	4,836	8,694	1,000	1,175	818	865	12
295,597	*673*	*9,085*	*6,600*	*58,807*	*121,938*	*23,916*	*25,245*	*24,531*	*24,802*	13
16,014	72	600	555	3,390	6,398	713	1,510	1,162	1,614	14
17,495	45	270	143	4,911	4,657	1,228	2,795	1,578	1,868	15
33,509	*117*	*870*	*698*	*8,301*	*11,055*	*1,941*	*4,305*	*2,740*	*3,482*	16
19,686	—	489	1,046	7,116	5,469	144	246	518	4,658	17
17,592	57	50	417	6,891	1,084	1,367	2,148	1,941	3,637	18
—	—	—	—	—	—	—	—	—	—	19
906	—	5	5	179	421	41	28	25	202	20
2,866	—	—	—	—	1,233	300	548	785	—	21
12,517	382	662	667	2,256	2,642	1,492	2,032	1,645	739	22
1,356	—	—	—	40	1,139	—	—	154	23	23
1,040	12	—	—	198	473	3	205	149	—	24
21,916	19	604	256	5,635	6,195	2,076	2,677	2,274	2,180	25
406,985	*1,260*	*11,765*	*9,689*	*89,423*	*151,649*	*31,280*	*37,434*	*34,762*	*39,723*	26
—	—	—	—	—	—	—	—	—	—	27
—	—	—	—	—	—	—	—	—	—	28
—	—	—	—	—	—	—	—	—	—	29
1,356	—	—	—	40	1,139	—	—	154	23	30
1,040	12	—	—	198	473	3	205	149	—	31
2,396	*12*	—	—	*238*	*1,612*	*3*	*205*	*303*	*23*	32
404,589	1,248	11,765	9,689	89,185	150,037	31,277	37,229	34,459	39,700	33

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1926 (1)

Thousands of Dollars

Item No.	EXPENDITURE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
1	NET DEBT SERVICE, excluding sinking fund	190,958	1,715	31	122,763	24,979	44,962
2	NATIONAL DEFENCE	14,454	—	128	14,582	—	—
3	PENSIONS AND AFTERCARE	44,503	—	—	44,503	—	—
	PUBLIC WELFARE—						
4	Relief	168	—	—	78	90	—
5	Other	43,294	1	1,006	5,093	18,520	20,686
6	EDUCATION	107,231	27	3	1,286	25,693	80,282
7	HIGHWAYS AND TRANSPORTATION	63,838	—	388	14,962	15,814	33,450
8	PUBLIC DOMAIN	20,045	40	106	11,291	8,900	—
9	AGRICULTURE	9,944	—	66	5,839	4,171	—
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES—						
10	Administration of Justice	14,734	—	59	6,276	8,517	60,931
11	Legislation	7,188	—	—	4,804	2,384	
12	General Government	45,363	—	1,812	35,059	12,116	
13	Other Current Expenditures	69,458	—	689	3,445	5,771	
14	Sub-Total	*136,743*	—	*2,560*	*49,584*	*28,788*	*60,931*
15	SUBSIDIES TO PROVINCES	—	12,517	—	12,517	—	—
16	POST OFFICE	1,939	—	29,069	31,008	—	—
17	Sub-Total	*633,117*	*14,298*	*33,357*	*313,506*	*126,955*	*240,311*
	DISTRIBUTION OF REFUNDS—						
18	Net Debt Service	—	—	31	—	31	—
19	National Defence	—	—	128	128	—	—
20	Other Public Welfare	—	—	1,006	—	1,006	—
21	Education	—	—	3	—	3	—
22	Highways and Transportation	—	—	388	—	388	—
23	Public Domain	—	—	106	—	106	—
24	Agriculture	—	—	66	—	66	—
25	General Government and Other Current Expenditures	—	—	2,560	1,764	796	—
26	Post Office	—	—	29,069	29,069	—	—
27	Sub-Total	—	—	*33,357*	*30,961*	*2,396*	—
28	NET CURRENT EXPENDITURES, excluding debt retirement	633,117	14,298	—	282,545	124,559	240,311

(1) For the fiscal years ended nearest to December 31, 1926.

ALL GOVERNMENTS

TABLE 15

(*Concluded*)

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1926 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL EXPENDITURE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
69,941	153	2,167	2,086	16,981	23,432	5,834	4,242	7,661	7,385	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
90	—	—	—	—	28	10	31	21	—	4
39,206	123	1,398	1,100	6,575	16,183	3,648	3,244	2,713	4,222	5
105,975	448	3,676	2,700	18,375	42,374	8,315	12,743	9,321	8,023	6
49,264	196	2,012	1,387	11,684	19,142	2,432	3,633	3,978	4,800	7
8,900	1	209	177	3,460	2,806	96	105	127	1,919	8
4,171	33	141	107	1,532	1,037	228	299	386	408	9
8,517	28	55	146	2,590	2,343	643	972	985	755	10
2,384	20	108	90	835	393	151	205	351	231	11
12,116	94	315	231	2,993	3,516	890	1,342	1,033	1,702	12
66,702	65	1,723	1,354	13,215	29,829	4,980	6,215	3,094	6,227	13
89,719	*207*	*2,201*	*1,821*	*19,633*	*36,081*	*6,664*	*8,734*	*5,463*	*8,915*	14
—	—	—	—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	—	—	—	16
367,266	*1,161*	*11,804*	*9,378*	*78,240*	*141,083*	*27,227*	*33,031*	*29,670*	*35,672*	17
31	—	—	—	31	—	—	—	—	—	18
—	—	—	—	—	—	—	—	—	—	19
1,006	—	—	—	13	839	—	—	154	—	20
3	—	—	—	—	—	—	3	—	—	21
388	—	—	—	88	300	—	—	—	—	22
106	—	—	—	—	104	—	2	—	—	23
66	12	—	—	—	54	—	—	—	—	24
796	—	—	—	106	315	3	200	149	23	25
—	—	—	—	—	—	—	—	—	—	26
2,396	*12*	—	—	*238*	*1,612*	*3*	*205*	*303*	*23*	27
364,870	1,149	11,804	9,378	78,002	139,471	27,224	32,826	29,367	35,649	28

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1930 (1)

Thousands of Dollars

Item No.	REVENUE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
	TAXES—						
1	Customs Import Duties	131,209	—	—	(2)131,209	—	—
2	Excise Duties	57,747	—	—	(3)57,747	—	—
3	Manufacturers Taxes	10,474	—	—	10,474	—	—
4	Sales Taxes	20,147	—	—	20,147	—	—
	Corporation Taxes—						
5	Income and Business Profits	48,653	—	—	44,458	4,195	—
6	Other	15,828	—	—	1,503	14,325	—
7	Income Taxes on Persons	32,642	—	—	26,624	2,122	3,896
8	Succession Duties	20,780	—	—	—	20,780	—
9	Gasoline Taxes	23,487	—	—	—	23,487	—
10	Real Property Taxes	263,826	—	—	—	6,708	257,118
11	Amusement Taxes	4,525	—	—	—	4,525	—
12	Other Taxes	27,825	—	—	4,531	1,534	21,760
13	Sub-Total—Taxes	*657,143*	—	—	*296,693*	*77,676*	*282,774*
	LICENCES, PERMITS AND FEES—						
14	Motor Vehicles, automobile licences	19,907	—	—	—	19,907	(4)
15	Other Licences, Permits and Fees	23,310	—	468	3,737	8,747	11,294
16	Sub-Total—Licences, Permits and Fees	*43,217*	—	*468*	*3,737*	*28,654*	*11,294*
17	PUBLIC DOMAIN	19,334	—	—	2,297	17,037	—
18	LIQUOR CONTROL	30,985	—	—	—	30,985	—
	SALE OF COMMODITIES AND SERVICES—						
19	Post Office	—	—	30,212	30,212	—	—
20	Other Services	3,904	—	—	2,745	1,159	—
21	Public Utility Contributions	3,171	—	—	—	—	3,171
22	SUBSIDIES AND SPECIAL GRANTS	—	14,276	—	—	14,276	—
	REFUNDS—						
23	From Municipalities	—	—	3,015	—	3,015	—
24	Other	—	—	8,299	6,788	1,511	—
25	OTHER CURRENT REVENUES	31,168	1,823	6,623	2,416	4,036	19,916
26	Sub-Total	*788,922*	*16,099*	*35,371*	*344,888*	*178,349*	*317,155*
	DISTRIBUTION OF REFUNDS—						
27	Post Office	—	—	30,212	30,212	—	—
28	Radio Licences	—	—	468	468	—	—
29	Refunds from Municipalities	—	—	3,015	—	3,015	—
30	Other (less credit to Other Current Revenues)	—	—	1,676	165	1,511	—
31	Sub-Total	—	—	*35,371*	*30,845*	*4,526*	—
32	NET CURRENT REVENUES	788,922	16,099	-	314,043	173,823	317,155

(1) For the fiscal years ended nearest to December 31, 1930.
(2) Of which 20,094 on liquor.
(3) Of which 23,154 on liquor.
(4) Particulars not available; included with Item 15.

ALL GOVERNMENTS

TABLE 16

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1930 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL REVENUE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
—	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	—	—	—	4
4,195	—	—	—	379	503	12	—	—	3,301	5
14,325	82	913	457	4,124	3,670	1,152	987	994	1,946	6
6,018	61	45	—	—	3,715	845	—	136	1,216	7
20,780	26	341	289	6,873	11,229	452	318	553	699	8
23,487	124	791	646	4,380	10,757	1,185	1,919	1,932	1,753	9
263,826	363	6,452	3,817	56,754	109,671	21,186	23,836	20,216	21,531	10
4,525	8	163	92	857	2,440	338	—	241	386	11
23,294	133	1,443	1,680	6,092	10,192	1,060	1,330	995	369	12
360,450	*797*	*10,148*	*6,981*	*79,459*	*152,177*	*26,230*	*28,390*	*25,067*	*31,201*	13
19,907	146	1,043	874	5,410	5,520	1,127	1,887	1,711	2,189	14
20,041	50	280	193	5,547	5,597	1,179	3,448	1,796	1,951	15
39,948	*196*	*1,323*	*1,067*	*10,957*	*11,117*	*2,306*	*5,335*	*3,507*	*4,140*	16
17,037	—	821	880	5,411	4,300	319	425	795	4,086	17
30,985	23	391	1,544	9,180	10,285	1,930	1,553	1,888	4,191	18
—	—	—	—	—	—	—	—	—	—	19
1,159	—	14	21	407	360	61	38	34	224	20
3,171	—	69	—	—	975	250	827	1,050	—	21
14,276	507	1,670	1,267	2,256	2,642	1,586	1,938	1,671	739	22
3,015	—	—	—	119	2,577	—	—	275	44	23
1,511	38	—	—	389	537	37	282	159	69	24
23,952	20	783	279	6,894	6,794	1,819	2,704	2,466	2,193	25
495,504	*1,581*	*15,219*	*12,039*	*115,072*	*191,764*	*34,538*	*41,492*	*36,912*	*46,887*	26
—	—	—	—	—	—	—	—	—	—	27
—	—	—	—	—	—	—	—	—	—	28
3,015	—	—	—	119	2,577	—	—	275	44	29
1,511	38	—	—	389	537	37	282	159	69	30
4,526	*38*	—	—	*508*	*3,114*	*37*	*282*	*434*	*113*	31
490,978	1,543	15,219	12,039	114,564	188,650	34,501	41,210	36,478	46,774	32

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1930 (1)

Thousands of Dollars

Item No.	EXPENDITURE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
1	NET DEBT SERVICE, excluding sinking fund	232,522	1,792	12	149,098	29,488	55,740
2	NATIONAL DEFENCE	23,256	—	159	23,415	—	—
3	PENSIONS AND AFTERCARE	55,341	—	—	55,341	—	—
	PUBLIC WELFARE—						
4	Relief	11,753	—	—	4,432	4,096	3,225
5	Other	72,129	4	2,806	13,266	33,388	28,285
6	EDUCATION	119,191	9	5	702	33,780	84,705
7	HIGHWAYS AND TRANSPORTATION	99,570	—	352	29,083	28,680	42,159
8	PUBLIC DOMAIN	29,236	55	119	14,155	15,255	—
9	AGRICULTURE	15,248	—	162	9,143	6,267	—
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES—						
10	Administration of Justice	19,958	—	100	8,415	11,643	71,614
11	Legislation	8,116	—	—	4,909	3,207	
12	General Government	61,565	—	690	46,637	15,618	
13	Other Current Expenditures	82,129	1	754	4,764	6,504	
14	Sub-Total	*171,768*	*1*	*1,544*	*64,725*	*36,972*	*71,614*
15	SUBSIDIES AND SPECIAL GRANTS TO PROVINCES	—	19,036	—	19,036	—	—
16	POST OFFICE	6,081	—	30,212	36,293	—	—
17	Sub-Total	*836,095*	*20,877*	*35,371*	*418,689*	*187,926*	*285,728*
	DISTRIBUTION OF REFUNDS—						
18	Net Debt Service	—	—	12	—	12	—
19	National Defence	—	—	159	159	—	—
20	Other Public Welfare	—	—	2,806	—	2,806	—
21	Education	—	—	5	—	5	—
32	Highways and Transportation	—	—	352	—	352	—
23	Public Domain	—	—	119	—	119	—
24	Agriculture	—	—	162	—	162	—
25	General Government and Other Current Expenditures	—	—	1,544	474	1,070	—
26	Post Office	—	—	30,212	30,212	—	—
27	Sub-Total	—	—	*35,371*	*30,845*	*4,526*	—
28	NET CURRENT EXPENDITURES, excluding debt retirement	836,095	20,877	—	387,844	183,400	285,728

(1) For the fiscal years ended nearest to December 31, 1930.

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1930 (1)

Thousands of Dollars

TABLE 16 *(Concluded)*

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL EXPENDITURE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
85,228	199	2,703	2,722	19,922	30,484	6,007	5,639	7,661	9,891	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
7,321	5	70	55	837	1,204	1,028	1,933	937	1,252	4
61,673	151	1,715	1,111	10,724	26,487	5,364	5,885	4,029	6,207	5
118,485	488	3,786	2,823	20,201	47,496	8,823	13,367	11,715	9,786	6
70,839	380	3,183	2,469	18,737	24,636	4,371	5,244	6,161	5,658	7
15,255	2	371	353	6,126	4,595	452	376	366	2,614	8
6,267	42	226	243	2,616	1,357	271	518	523	471	9
11,643	51	139	309	3,737	3,128	890	1,097	1,216	1,076	10
3,207	22	117	105	869	1,024	187	300	392	191	11
15,618	107	448	316	3,902	4,328	1,163	1,739	1,327	2,288	12
78,118	82	1,819	1,292	18,243	33,056	5,264	7,518	3,445	7,399	13
108,586	*262*	*2,523*	*2,022*	*26,751*	*41,536*	*7,504*	*10,654*	*6,380*	*10,954*	14
—	—	—	—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	—	—	—	16
473,654	*1,529*	*14,577*	*11,798*	*105,914*	*177,795*	*33,820*	*43,616*	*37,772*	*46,833*	17
12	—	—	—	12	—	—	—	—	—	18
—	—	—	—	—	—	—	—	—	—	19
2,806	—	—	—	98	2,270	26	42	301	69	20
5	—	—	—	—	—	—	5	—	—	21
352	—	—	—	30	322	—	—	—	—	22
119	—	—	—	2	85	—	32	—	—	23
162	38	—	—	67	1	—	56	—	—	24
1,070	—	—	—	299	436	11	147	133	44	25
—	—	—	—	—	—	—	—	—	—	26
4,526	*38*	—	—	*508*	*3,114*	*37*	*282*	*434*	*113*	27
469,128	1,491	14,577	11,798	105,406	174,681	33,783	43,334	37,338	46,720	28

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1937 (1)

Thousands of Dollars

Item No.	REVENUE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
	TAXES—						
1	Customs Import Duties	112,077	—	—	(2)112,077	—	—
2	Excise Duties	52,037	—	—	(3)52,037	—	—
3	Manufacturers Taxes	17,185	—	—	17,185	—	—
4	Sales Taxes	144,360	—	—	138,055	1,893	4,412
	Corporation Taxes—						
5	Income	84,964	—	—	69,768	15,196	—
6	Other	20,780	—	—	1,974	18,806	—
7	Income Taxes on Persons	64,351	—	—	50,597	11,884	1,870
8	Succession Duties	35,757	—	—	—	35,757	—
9	Gasoline Taxes	38,906	—	—	—	38,906	—
10	Real Property Taxes	250,811	—	—	—	5,875	244,936
11	Amusement Taxes	2,838	—	—	—	2,838	—
12	Other Taxes	30,733	—	—	7,391	3,005	20,337
13	Sub-Total—Taxes	*854,799*	—	—	*449,084*	*134,160*	*271,555*
	LICENCES, PERMITS AND FEES—						
14	Motor Vehicles, automobile licences	25,937	—	—	—	25,937	(4)
15	Other Licences, Permits and Fees	21,024	—	2,023	4,353	8,240	10,454
16	Sub-Total—Licences, Permits and Fees	*46,961*	—	*2,023*	*4,353*	*34,177*	*10,454*
17	PUBLIC DOMAIN	23,619	—	—	2,484	21,135	—
18	LIQUOR CONTROL	29,798	—	—	—	29,798	—
	SALE OF COMMODITIES AND SERVICES—						
19	Post Office	3,250	—	32,296	35,546	—	—
20	Other Services	3,984	—	—	3,019	965	—
21	Public Utility Contributions	6,175	—	—	—	—	6,175
22	SUBSIDIES	—	21,184	—	—	21,184	—
	REFUNDS—						
23	From Municipalities	—	—	734	—	734	—
24	Other	—	—	3,849	2,030	1,819	—
25	OTHER CURRENT REVENUES	26,627	1,466	640	3,517	3,055	20,881
26	Sub-Total	*995,213*	*22,650*	*38,262*	*500,033*	*247,027*	*309,065*
	DISTRIBUTION OF REFUNDS—						
27	Post Office	—	—	32,296	32,296	—	—
28	Canadian Broadcasting Corporation	—	—	2,023	2,023	—	—
29	Relief Acts	—	—	1,185	1,185	—	—
30	Municipal	—	—	734	—	734	—
31	Other	—	—	2,024	205	1,819	—
32	Sub-Total	—	—	*38,262*	*35,709*	*2,553*	—
33	NET CURRENT REVENUES	995,213	22,650	—	464,324	244,474	309,065

(1) For the fiscal years ended nearest to December 31, 1937.
(2) Of which 6,786 on liquor.
(3) Of which 20,351 on liquor.
(4) Particulars not available; included with Item 15.

ALL GOVERNMENTS

TABLE 17

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1937 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL REVENUE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
—	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
6,305	—	—	—	4,412	—	—	1,292	601	—	4
15,196	—	—	—	4,532	3,798	607	281	590	5,388	5
18,806	165	1,122	520	5,133	6,579	1,247	938	1,542	1,560	6
13,754	34	47	129	1,694	6,041	2,789	353	665	2,002	7
35,757	45	504	398	11,197	20,214	404	241	1,326	1,428	8
38,906	269	1,971	1,640	7,298	17,644	2,316	1,995	2,610	3,163	9
250,811	412	7,059	4,450	60,433	107,980	17,000	16,482	17,390	19,605	10
2,838	11	147	89	975	873	175	14	165	389	11
23,342	181	1,502	1,781	5,856	9,856	1,130	1,130	920	986	12
405,715	*1,117*	*12,352*	*9,007*	*101,530*	*172,985*	*25,668*	*22,726*	*25,809*	*34,521*	13
25,937	145	1,409	875	7,184	8,777	1,323	1,581	1,772	2,871	14
18,694	55	306	210	6,155	5,201	1,204	2,167	1,506	1,890	15
44,631	*200*	*1,715*	*1,085*	*13,339*	*13,978*	*2,527*	*3,748*	*3,278*	*4,761*	16
21,135	—	832	1,087	6,362	5,350	603	800	1,686	4,415	17
29,798	40	1,441	1,105	7,052	10,456	1,753	1,266	2,590	4,095	18
—	—	—	—	—	—	—	—	—	—	19
965	4	12	22	524	86	36	24	60	197	20
6,175	—	181	—	900	1,064	525	1,019	1,798	688	21
21,184	657	1,953	1,567	2,592	2,941	2,453	5,620	1,776	1,625	22
734	2	—	—	55	111	—	—	307	259	23
1,819	3	—	—	602	424	49	184	389	168	24
23,936	40	801	255	8,857	5,880	1,749	2,933	1,791	1,630	25
556,092	*2,063*	*19,287*	*14,128*	*141,813*	*213,275*	*35,363*	*38,320*	*39,484*	*52,359*	26
—	—	—	—	—	—	—	—	—	—	27
—	—	—	—	—	—	—	—	—	—	28
—	—	—	—	—	—	—	—	—	—	29
734	2	—	—	55	111	—	—	307	259	30
1,819	3	—	—	602	424	49	184	389	168	31
2,553	*5*	—	—	*657*	*535*	*49*	*184*	*696*	*427*	32
553,539	2,058	19,287	14,128	141,156	212,740	35,314	38,136	38,788	51,932	33

ALL GOVERNMENTS

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1937 (1)

Thousands of Dollars

Item No.	EXPENDITURE	ALL GOVERNMENTS	Eliminations	Refunds	DOMINION	PROVINCIAL	MUNICIPAL
1	NET DEBT SERVICE, excluding sinking fund..	271,339	1,428	—	167,043	50,911	54,813
2	NATIONAL DEFENCE.....	33,614	—	194	33,808	—	—
3	PENSIONS AND AFTERCARE.....	54,437	—	—	54,437	—	—
	PUBLIC WELFARE—						
4	Relief.....	126,627	8	1,280	67,349	42,942	17,608
5	Other.....	124,383	25	823	43,834	45,782	35,615
6	EDUCATION.....	108,899	—	385	272	32,506	76,506
7	HIGHWAYS AND TRANSPORTATION.....	73,750	—	108	18,000	25,299	30,559
8	PUBLIC DOMAIN.....	24,258	—	46	9,844	14,460	—
9	AGRICULTURE.....	14,287	—	12	8,065	6,234	—
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES—						
10	Administration of Justice.....	21,911	—	181	10,403	11,689	66,936
11	Legislation.....	5,758	—	—	2,533	3,225	
12	General Government.....	57,698	—	595	38,950	19,343	
13	Other Current Expenditures.....	79,089	—	2,342	5,833	8,662	
14	Sub-Total.....	*164,456*	—	*3,118*	*57,719*	*42,919*	*66,936*
	SUBSIDIES AND SPECIAL GRANTS TO						
15	PROVINCES.....	—	21,210	—	21,210	—	—
16	POST OFFICE.....	—	—	32,296	32,296	—	—
17	Sub-Total.....	*996,050*	*22,655*	*38,262*	*513,877*	*261,053*	*282,037*
	DISTRIBUTION OF REFUNDS—						
18	National Defence.....	—	—	194	194	—	—
19	Relief.....	—	—	1,280	1,185	95	—
20	Other Public Welfare.....	—	—	823	—	823	—
21	Education.....	—	—	385	—	385	—
22	Highways and Transportation.....	—	—	108	—	108	—
23	Public Domain.....	—	—	46	—	46	—
24	Agriculture.....	—	—	12	—	12	—
25	General Government and Other Current Expenditures.....	—	—	3,118	2,034	1,084	—
26	Post Office.....	—	—	32,296	32,296	—	—
27	Sub-Total.....	—	—	*38,262*	*35,709*	*2,553*	—
28	NET CURRENT EXPENDITURES, excluding debt retirement.....	996,050	22,655	—	478,168	258,500	282,037

(1) For fiscal years ended nearest to Dec. 31, 1937.
(2) Does not include unpaid interest, estimated at 3,400.

ALL GOVERNMENTS

TABLE 17
(*Concluded*)

REVENUE AND EXPENDITURE, CURRENT ACCOUNT

1937 (1)

Thousands of Dollars

DISTRIBUTION OF PROVINCIAL AND MUNICIPAL EXPENDITURE										Item No.
TOTAL	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
105,724	336	3,874	3,870	29,608	35,119	7,452	8,802	(2)5,872	10,791	1
—	—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—	3
60,550	78	625	259	20,850	15,411	4,992	10,746	3,019	4,570	4
81,397	278	3,414	1,945	17,457	32,106	5,382	6,773	5,875	8,167	5
109,012	549	4,216	2,675	23,078	44,576	6,907	8,199	9,447	9,365	6
55,858	405	2,520	1,616	15,270	21,498	2,895	2,854	4,162	4,638	7
14,460	8	316	437	7,515	2,654	570	896	446	1,618	8
6,234	40	259	219	3,432	1,013	169	378	444	280	9
11,689	61	161	204	4,246	3,179	670	831	761	1,576	10
3,225	22	206	78	767	1,205	138	174	228	407	11
19,343	116	555	356	6,074	5,091	1,011	1,668	1,690	2,782	12
75,598	95	2,149	1,182	20,797	30,474	4,819	5,354	3,539	7,189	13
109,855	*294*	*3,071*	*1,820*	*31,884*	*39,949*	*6,638*	*8,027*	*6,218*	*11,954*	14
—	—	—	—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	—	—	—	16
543,090	*1,988*	*18,295*	*12,841*	*149,094*	*192,326*	*35,005*	*46,675*	*35,483*	*51,383*	17
—	—	—	—	—	—	—	—	—	—	18
95	—	—	—	—	—	—	—	95	—	19
823	3	—	—	29	83	28	27	347	306	20
385	—	—	—	377	—	—	8	—	—	21
108	—	—	—	—	108	—	—	—	—	22
46	—	—	—	15	24	—	7	—	—	23
12	2	—	—	—	—	10	—	—	—	24
1,084	—	—	—	236	320	11	142	254	121	25
—	—	—	—	—	—	—	—	—	—	26
2,553	*5*	—	—	*657*	*535*	*49*	*184*	*696*	*427*	27
540,537	1,983	18,295	12,841	148,437	191,791	34,956	46,491	34,787	50,956	28

ALL GOVERNMENTS

TABLE 18

REVENUE — CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

Item No.	—	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	TAXES—					
1	CUSTOMS IMPORT DUTIES (Dominion)	104,691	105,687	141,969	131,209	112,077
2	EXCISE DUTIES (Dominion)	21,452	36,755	48,513	57,747	52,037
3	MANUFACTURERS TAXES (Dominion)	—	6,639	(1)11,053	10,474	17,185
	SALES TAXES—					
4	DOMINION	—	61,273	81,196	20,147	138,055
	PROVINCIAL AND MUNICIPAL—					
5	Quebec—Municipal	—	—	—	—	4,412
6	Saskatchewan—Provincial	—	—	—	—	1,292
7	Alberta—Provincial	—	—	—	—	601
8	Sub-Total—Sales Taxes	—	*61,273*	*81,196*	*20,147*	*144,360*
	CORPORATION INCOME TAXES—					
9	DOMINION	—	61,680	30,053	44,458	69,768
	PROVINCIAL—					
10	Quebec	—	169	142	379	4,532
11	Ontario	—	184	411	503	3,798
12	Manitoba	—	276	—	12	607
13	Saskatchewan	—	—	—	—	281
14	Alberta	—	—	—	—	590
15	British Columbia	138	1,810	2,346	3,301	5,388
16	Sub-Total—Corporation Income Taxes	*138*	*64,119*	*32,952*	*48,653*	*84,964*
	OTHER CORPORATION TAXES—					
17	DOMINION	—	2,328	2,458	1,503	1,974
	PROVINCIAL—					
18	Prince Edward Island	14	33	116	82	165
19	Nova Scotia	66	541	779	913	1,122
20	New Brunswick	60	253	644	457	520
21	Quebec	943	2,051	2,577	4,124	5,133
22	Ontario	894	3,052	3,425	3,670	6,579
23	Manitoba	349	737	1,103	1,152	1,247
24	Saskatchewan	258	604	865	987	938
25	Alberta	171	465	857	994	1,542
26	British Columbia	597	987	1,757	1,946	1,560
27	Sub-Total—Other Corporation Taxes	*3,352*	*11,051*	*14,581*	*15,828*	*20,780*

(1) Less refunds of 1,549.

ALL GOVERNMENTS

TABLE 18 (*Continued*)

REVENUE — CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

Item No.	—	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	TAXES—(Continued)					
	INCOME TAX ON PERSONS—					
1	DOMINION	—	39,821	18,043	26,624	50,597
	PROVINCIAL AND MUNICIPAL—					
2	PRINCE EDWARD ISLAND—Provincial	13	50	66	61	34
3	NOVA SCOTIA—Municipal	(1)38	(1)73	(1)45	(1)45	47
4	NEW BRUNSWICK—Municipal	—	—	—	—	129
5	QUEBEC—Municipal	—	—	—	—	1,694
6	ONTARIO—Provincial	—	—	—	—	6,041
7	Municipal	*	*	3,121	3,715	—
8	MANITOBA—Provincial	—	—	562	845	2,789
9	SASKATCHEWAN—Provincial	—	—	—	—	353
10	ALBERTA—Provincial	—	—	—	—	665
11	Municipal	—	—	112	136	—
12	BRITISH COLUMBIA—Provincial	106	435	889	1,216	2,002
13	Sub-Total—Income Tax on Persons	*157*	*40,379*	*22,838*	*32,642*	*64,351*
	SUCCESSION DUTIES—					
14	Prince Edward Island	6	11	19	26	45
15	Nova Scotia	53	159	470	341	504
16	New Brunswick	98	151	294	289	398
17	Quebec	1,605	3,005	3,691	6,873	11,197
18	Ontario	1,146	4,822	8,762	11,229	20,214
19	Manitoba	268	457	757	452	404
20	Saskatchewan	74	309	290	318	241
21	Alberta	67	177	254	553	1,326
22	British Columbia	294	633	767	699	1,428
23	Sub-Total—Succession Duties	*3,611*	*9,724*	*15,304*	*20,780*	*35,757*
	GASOLINE TAXES—					
24	Prince Edward Island	—	—	32	124	269
25	Nova Scotia	—	—	124	791	1,971
26	New Brunswick	—	—	118	646	1,640
27	Quebec	—	—	1,211	4,380	7,298
28	Ontario	—	—	3,376	10,757	17,644
29	Manitoba	—	—	446	1,185	2,316
30	Saskatchewan	—	—	—	1,919	1,995
31	Alberta	—	—	424	1,932	2,610
32	British Columbia	—	—	680	1,753	3,163
33	Sub-Total—Gasoline Taxes	—	—	*6,411*	*23,487*	*38,906*

(1) Estimated. * Information not available.

ALL GOVERNMENTS

REVENUE—CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	TAXES—(Continued)					
	REAL PROPERTY TAXES—					
1	Prince Edward Island—Provincial	34	115	102	83	105
2	Municipal	90	200	251	280	307
3	Nova Scotia—Provincial	18	440	510	558	478
4	Municipal	2,015	5,273	5,618	5,894	6,581
5	New Brunswick—Provincial	—	141	145	117	113
6	Municipal	1,105	2,620	3,725	3,700	4,337
7	Quebec—Municipal	16,450	37,050	45,575	56,754	60,433
8	Ontario—Provincial	—	—	1	140	235
9	Municipal	31,071	74,058	91,271	109,531	107,745
10	Manitoba—Provincial	28	1,956	2,064	1,186	738
11	Municipal	9,622	19,281	17,540	20,000	16,262
12	Saskatchewan—Provincial	572	3,095	2,920	1,430	967
13	Municipal	10,164	21,318	19,995	22,406	15,515
14	Alberta—Provincial	86	2,001	1,888	1,149	1,181
15	Municipal	9,797	16,498	19,977	19,067	16,209
16	British Columbia—Provincial	1,015	1,972	2,370	2,045	2,058
17	Municipal	10,000	13,358	14,688	19,486	17,547
18	Sub-Total—Real Property Taxes	*92,067*	*199,376*	*228,640*	*263,826*	*250,811*
	AMUSEMENT TAXES—(1)					
19	Prince Edward Island	—	5	5	8	11
20	Nova Scotia	—	180	114	163	147
21	New Brunswick	—	65	54	92	89
22	Quebec	—	405	775	857	975
23	Ontario	—	1,553	2,877	2,440	873
24	Manitoba	—	325	444	338	175
25	Saskatchewan	—	—	—	—	14
26	Alberta	—	181	201	241	165
27	British Columbia	—	318	440	386	389
28	Sub-Total—Amusement Taxes	—	*3,032*	*4,910*	*4,525*	*2,838*

(1) Details of municipal amusement taxes not available.

ALL GOVERNMENTS

REVENUE—CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	OTHER TAXES—					
1	DOMINION	1,335	6,140	12,186	4,531	7,391
	PROVINCIAL AND MUNICIPAL—					
2	PRINCE EDWARD ISLAND—Provincial	38	91	2	33	66
3	Municipal	30	80	80	100	115
4	NOVA SCOTIA—Provincial	—	—	—	13	26
5	Municipal	577	1,102	1,425	1,430	1,476
6	NEW BRUNSWICK—Municipal	535	1,440	1,620	1,680	1,781
7	QUEBEC—Provincial	54	88	561	652	1,112
8	Municipal	1,450	3,300	4,275	5,440	4,744
9	ONTARIO—Provincial	43	213	940	707	1,096
10	Municipal	3,160	8,960	7,754	9,485	8,760
11	MANITOBA—Municipal	500	900	1,000	1,060	1,130
12	SASKATCHEWAN—Municipal	100	1,130	1,175	1,330	1,130
13	ALBERTA—Municipal	125	930	818	995	920
14	BRITISH COLUMBIA—Provincial	212	807	615	129	705
15	Municipal	40	114	250	240	281
16	Sub-Total—Other Taxes	*8,199*	*25,295*	*32,701*	*27,825*	*30,733*
	TOTAL TAXES—					
17	DOMINION	127,478	320,323	(1)345,471	296,693	449,084
	PROVINCIAL AND MUNICIPAL—					
18	PRINCE EDWARD ISLAND—Provincial	105	305	342	417	695
19	Municpal	120	280	331	380	422
20	NOVA SCOTIA—Provincial	137	1,320	1,997	2,779	4,248
21	Municipal	2,630	6,448	7,088	7,369	8,104
22	NEW BRUNSWICK—Provincial	158	610	1,255	1,601	2,760
	Municipal	1,640	4,060	5,345	5,380	6,247
24	QUEBEC—Provincial	2,602	5,718	8,957	17,265	30,247
25	Municipal	17,900	40,350	49,850	62,194	71,283
26	ONTARIO—Provincial	2,083	9,824	19,792	29,446	56,480
27	Municipal	34,231	83,018	102,146	122,731	116,505
28	MANITOBA—Provincial	645	3,751	5,376	5,170	8,276
29	Municipal	10,122	20,181	18,540	21,060	17,392
30	SASKATCHEWAN—Provincial	904	4,008	4,075	4,654	6,081
31	Municipal	10,264	22,448	21,170	23,736	16,645
32	ALBERTA—Provincial	324	2,824	3,624	4,869	8,680
33	Municipal	9,922	17,428	20,907	20,198	17,129
34	BRITISH COLUMBIA—Provincial	2,362	6,962	9,864	11,475	16,693
35	Municipal	10,040	13,472	14,938	19,726	17,828
36	TOTAL—TAXES	**233,667**	**563,330**	**641,068**	**657,143**	**854,799**

(1) Less refunds of 1,549.

ALL GOVERNMENTS

REVENUE — CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	MOTOR VEHICLES, AUTOMOBILE LICENCES, ETC.—(1)					
1	Prince Edward Island	1	38	72	146	145
2	Nova Scotia	—	378	600	1,043	1,409
3	New Brunswick	11	274	555	874	875
4	Quebec	123	1,983	3,390	5,410	7,184
5	Ontario	106	2,946	6,398	5,520	8,777
6	Manitoba	35	539	713	1,127	1,323
7	Saskatchewan	49	701	1,510	1,887	1,581
8	Alberta	46	719	1,162	1,711	1,772
9	British Columbia	99	803	1,614	2,189	2,871
10	**TOTAL—MOTOR VEHICLES, AUTOMOBILE LICENSES, ETC.**	**470**	**8,381**	**16,014**	**19,907**	**25,937**
	OTHER LICENCES, PERMITS AND FEES—					
11	DOMINION	1,194	2,595	3,535	3,737	4,353
12	Less Refunds (2)	—	—	206	468	2,023
	PROVINCIAL AND MUNICIPAL—					
13	PRINCE EDWARD ISLAND—Provincial	18	17	15	20	25
14	Municipal	22	28	30	30	30
15	NOVA SCOTIA—Provincial	25	157	153	163	190
16	Municipal	110	119	117	117	116
17	NEW BRUNSWICK—Provincial	47	76	67	91	104
18	Municipal	35	55	76	102	106
19	QUEBEC—Provincial	991	1,670	2,161	2,480	2,545
20	Municipal	1,150	2,200	2,750	3,067	3,610
21	ONTARIO—Provincial	760	1,367	1,782	2,162	2,382
22	Municipal	2,431	2,200	2,875	3,435	2,819
23	MANITOBA—Provincial	561	637	578	579	504
24	Municipal	300	600	650	600	700
25	SASKATCHEWAN—Provincial	1,729	1,267	1,155	1,158	648
26	Municipal	50	1,454	1,640	2,290	1,519
27	ALBERTA—Provincial	1,198	1,058	1,068	1,231	1,058
28	Municipal	370	575	510	565	448
29	BRITISH COLUMBIA—Provincial	1,053	792	839	863	784
30	Municipal	536	779	1,029	1,088	1,106
31	**TOTAL — OTHER LICENSES, PERMITS AND FEES**	**12,580**	**17,646**	**20,824**	**23,310**	**21,024**

(1) Details of municipal taxes not available.
(2) Radio licences applied against expenditure.

ALL GOVERNMENTS

REVENUE—CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18
(Continued)

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	PUBLIC DOMAIN—					
1	DOMINION	3,420	3,542	4,000	2,297	2,484
	PROVINCIAL—					
2	Prince Edward Island	7	—	—	—	—
3	Nova Scotia	853	739	489	821	832
4	New Brunswick	502	1,107	1,046	880	1,087
5	Quebec	1,866	4,440	7,116	5,411	6,362
6	Ontario	2,887	3,725	5,469	4,300	5,350
7	Manitoba	427	256	144	319	603
8	Saskatchewan	49	151	246	425	800
9	Alberta	57	456	518	795	1,686
10	British Columbia	4,398	3,912	4,658	4,086	4,415
11	TOTAL—PUBLIC DOMAIN	**14,466**	**18,328**	**23,686**	**19,334**	**23,619**
	LIQUOR CONTROL—(1)					
12	Prince Edward Island	2	49	57	23	40
13	Nova Scotia	—	75	50	391	1,441
14	New Brunswick	43	34	417	1,544	1,105
15	Quebec	794	4,398	6,891	9,180	7,052
16	Ontario	902	349	1,084	10,285	10,456
17	Manitoba	162	80	1,367	1,930	1,753
18	Saskatchewan	218	58	2,148	1,553	1,266
19	Alberta	127	252	1,941	1,888	2,590
20	British Columbia	—	2,629	3,637	4,191	4,095
21	TOTAL—LIQUOR CONTROL	**2,248**	**7,856**	**17,592**	**30,985**	**29,798**
	SALE OF COMMODITIES AND SERVICES—					
22	DOMINION	14,335	28,760	31,948	32,957	38,565
23	Less Refunds	12,822	26,402	29,069	30,212	32,296
	PROVINCIAL AND MUNICIPAL—					
24	PRINCE EDWARD ISLAND—Provincial	—	—	—	—	4
25	NOVA SCOTIA—Provincial	—	—	5	14	12
26	Municipal	—	—	—	69	181
27	NEW BRUNSWICK—Provincial	3	5	5	21	22
28	QUEBEC—Provincial	47	65	179	407	524
29	Municipal	—	—	—	—	900
30	ONTARIO—Provincial	18	332	421	360	86
31	Municipal	—	470	1,233	975	1,064
32	MANITOBA—Provincial	47	119	41	61	36
33	Municipal	100	200	300	250	525
34	SASKATCHEWAN—Provincial	461	54	28	38	24
35	Municipal	—	—	548	827	1,019
36	ALBERTA—Provincial	155	32	25	34	60
37	Municipal	205	485	785	1,050	1,798
38	BRITISH COLUMBIA—Provincial	84	140	202	224	197
39	Municipal	—	—	—	—	688
40	TOTAL—SALE OF COMMODITIES AND SERVICES	**2,633**	**4,260**	**6,651**	**7,075**	**13,409**

(1) Provinces only; in addition the following liquor taxes were collected by the Dominion—

Customs Import Duties	9,935	10,574	16,433	20,094	6,786
Excise Taxes and Duties	11,211	10,994	23,258	23,154	20,351
	21,146	21,568	39,691	43,248	27,137

ALL GOVERNMENTS

REVENUE — CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
1	OTHER CURRENT REVENUES—ALL GOVERNMENTS	**10,707**	**20,263**	**24,982**	**31,168**	**26,627**
2	DOMINION	1,674	4,166	4,748	9,204	5,547
3	PROVINCIAL	16,133	17,000	18,855	22,838	26,792
4	MUNICIPAL	7,697	13,537	17,974	19,916	20,881
5	REFUNDS	1,555	1,209	2,533	4,691	3,943
6	ELIMINATIONS	13,242	13,231	14,062	16,099	22,650
7	PROVINCIAL AND MUNICIPAL, LESS REFUNDS	**22,351**	**29,804**	**34,433**	**38,228**	**45,120**
8	PRINCE EDWARD ISLAND—Provincial	385	382	382	508	677
9	Municipal	12	16	19	19	20
10	Sub-Total	*397*	*398*	*401*	*527*	*697*
11	NOVA SCOTIA—Provincial	663	675	693	1,707	1,980
12	Municipal	256	505	573	746	774
13	Sub-Total	*919*	*1,180*	*1,266*	*2,453*	*2,754*
14	NEW BRUNSWICK—Provincial	643	691	719	1,293	1,590
15	Municipal	130	170	204	253	232
16	Sub-Total	*773*	*861*	*923*	*1,546*	*1,822*
17	QUEBEC—Provincial	2,070	2,475	2,366	2,450	2,974
18	Municipal	1,850	2,900	5,525	6,700	8,475
19	Sub-Total	*3,920*	*5,375*	*7,891*	*9,150*	*11,449*
20	ONTARIO—Provincial	2,544	3,173	3,337	3,211	3,573
21	Municipal	2,423	4,540	5,500	6,225	5,248
22	Sub-Total	*4,967*	*7,713*	*8,837*	*9,436*	*8,821*
23	MANITOBA—Provincial	2,204	1,955	2,068	2,005	2,752
24	Municipal	700	950	1,500	1,400	1,450
25	Sub-Total	*2,904*	*2,905*	*3,568*	*3,405*	*4,202*
26	SASKATCHEWAN—Provincial	2,432	3,122	3,415	3,310	6,502
27	Municipal	500	1,354	1,294	1,332	2,051
28	Sub-Total	*2,932*	*4,476*	*4,709*	*4,642*	*8,553*
29	ALBERTA—Provincial	1,555	2,438	2,432	2,857	2,353
30	Municipal	826	1,380	1,487	1,280	1,214
31	Sub-Total	*2,381*	*3,818*	*3,919*	*4,137*	*3,567*
32	BRITISH COLUMBIA—Provincial	2,158	1,356	1,047	971	1,838
33	Municipal	1,000	1,722	1,872	1,961	1,417
34	Sub-Total	*3,158*	*3,078*	*2,919*	*2,932*	*3,255*

ALL GOVERNMENTS

REVENUE — CURRENT ACCOUNT

ANALYSIS BY SOURCES

Thousands of Dollars

TABLE 18 *(Concluded)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
1	TOTAL CURRENT REVENUES—ALL GOVERNMENTS	**276,771**	**640,064**	**750,817**	**788,922**	**995,213**
2	DOMINION	148,101	359,386	391,251	344,888	500,033
3	PROVINCIAL	46,414	91,133	136,153	178,349	247,027
4	MUNICIPAL	109,875	230,387	270,832	317,155	309,065
5	REFUNDS	14,377	27,611	33,357	35,371	38,262
6	ELIMINATIONS	13,242	13,231	14,062	16,099	22,650
7	PROVINCIAL AND MUNICIPAL, LESS REFUNDS	**154,810**	**320,787**	**404,589**	**490,978**	**553,539**
8	PRINCE EDWARD ISLAND—Provincial	518	791	868	1,114	1,586
9	Municipal	154	324	380	429	472
10	Sub-Total	*672*	*1,115*	*1,248*	*1,543*	*2,058*
11	NOVA SCOTIA—Provincial	1,678	3,344	3,987	6,918	10,112
12	Municipal	2,996	7,072	7,778	8,301	9,175
13	Sub-Total	*4,674*	*10,416*	*11,765*	*15,219*	*19,287*
14	NEW BRUNSWICK—Provincial	1,407	2,729	4,064	6,304	7,543
15	Municipal	1,805	4,285	5,625	5,735	6,585
16	Sub-Total	*3,212*	*7,014*	*9,689*	*12,039*	*14,128*
17	QUEBEC—Provincial	8,493	20,749	31,060	42,603	56,888
18	Municipal	20,900	45,450	58,125	71,961	84,268
19	Sub-Total	*29,393*	*66,199*	*89,185*	*114,564*	*141,156*
20	ONTARIO—Provincial	9,300	21,716	38,283	55,284	87,104
21	Municipal	39,085	90,228	111,754	133,366	125,636
22	Sub-Total	*48,385*	*111,944*	*150,037*	*188,650*	*212,740*
23	MANITOBA—Provincial	4,081	7,337	10,287	11,191	15,247
24	Municipal	11,222	21,931	20,990	23,310	20,067
25	Sub-Total	*15,303*	*29,268*	*31,277*	*34,501*	*35,314*
26	SASKATCHEWAN—Provincial	5,842	9,361	12,577	13,025	16,902
27	Municipal	10,814	25,256	24,652	28,185	21,234
28	Sub-Total	*16,656*	*34,617*	*37,229*	*41,210*	*38,136*
29	ALBERTA—Provincial	3,462	7,779	10,770	13,385	18,199
30	Municipal	11,323	19,868	23,689	23,093	20,589
31	Sub-Total	*14,785*	*27,647*	*34,459*	*36,478*	*38,788*
32	BRITISH COLUMBIA—Provincial	10,154	16,594	21,861	23,999	30,893
33	Municipal	11,576	15,973	17,839	22,775	21,039
34	Sub-Total	*21,730*	*32,567*	*39,700*	*46,774*	*51,932*

ALL GOVERNMENTS

TABLE 19

EXPENDITURE—CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
1	NET DEBT SERVICE, excluding debt retirement— ALL GOVERNMENTS	34,794	202,475	190,958	232,522	271,339
2	DOMINION	12,213	152,488	122,763	149,098	167,043
3	PROVINCIAL	3,255	14,389	24,979	29,488	(1)50,911
4	MUNICIPAL	19,713	36,944	44,962	55,740	54,813
5	REFUNDS	(2)951	5	31	12	—
6	ELIMINATIONS	564	1,341	1,715	1,792	1,428
7	PROVINCIAL AND MUNICIPAL, less refunds	22,017	51,328	69,910	85,216	105,724
8	PRINCE EDWARD ISLAND—Provincial	37	51	95	124	221
9	Municipal	25	55	58	75	115
10	Sub-Total	*62*	*106*	*153*	*199*	*336*
11	NOVA SCOTIA—Provincial	318	652	1,270	1,599	2,616
12	Municipal	493	662	897	1,104	1,258
13	Sub-Total	*811*	*1,314*	*2,167*	*2,703*	*3,874*
14	NEW BRUNSWICK—Provincial	257	1,057	1,511	2,012	2,784
15	Municipal	250	385	575	710	1,086
16	Sub-Total	*507*	*1,442*	*2,086*	*2,722*	*3,870*
17	QUEBEC—Provincial	966	2,235	2,780	2,075	6,868
18	Municipal	4,520	10,300	14,170	17,835	22,740
19	Sub-Total	*5,486*	*12,535*	*16,950*	*19,910*	*29,608*
20	ONTARIO—Provincial	122	2,131	7,282	9,659	18,539
21	Municipal	6,010	12,700	16,150	20,825	16,580
22	Sub-Total	*5,888*	*14,831*	*23,432*	*30,484*	*35,119*
23	MANITOBA—Provincial	604	1,217	1,829	1,782	3,701
24	Municipal	1,855	3,555	4,005	4,225	3,751
25	Sub-Total	*2,459*	*4,772*	*5,834*	*6,007*	*7,452*
26	SASKATCHEWAN—Provincial	482	1,243	1,789	2,842	6,083
27	Municipal	1,535	2,606	2,453	2,797	2,719
28	Sub-Total	*2,017*	*3,849*	*4,242*	*5,639*	*8,802*
29	ALBERTA—Provincial	389	2,600	4,603	4,332	(1)3,559
30	Municipal	2,196	2,962	3,058	3,329	2,313
31	Sub-Total	*1,807*	*5,562*	*7,661*	*7,661*	*5,872*
32	BRITISH COLUMBIA—Provincial	151	3,198	3,789	5,051	6,540
33	Municipal	2,829	3,719	3,596	4,840	4,251
34	Sub-Total	*2,980*	*6,917*	*7,385*	*9,891*	*10,791*

(1) Excludes unpaid interest, Alberta, estimated at 3,400.

(2) Alberta.

ALL GOVERNMENTS

TABLE 19

(*Continued*)

EXPENDITURE—CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	NATIONAL DEFENCE (Dominion)—					
1	NET CURRENT EXPENDITURE.....	13,781	17,249	14,454	23,256	33,614
2	GROSS EXPENDITURE.....	13,812	17,381	14,582	23,415	33,808
3	REFUNDS.....	31	132	128	159	194
4	PENSIONS AND AFTERCARE (Dominion)...	94	53,688	44,503	55,341	54,437

ALL GOVERNMENTS

EXPENDITURE—CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

TABLE 19 (*Continued*)

Item No.	——	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	RELIEF—					
1	ALL GOVERNMENTS	—	**916**	**168**	**11,753**	**126,627**
2	DOMINION	—	500	78	4,432	67,349
3	PROVINCIAL	—	416	90	4,096	42,942
4	MUNICIPAL	—	—	—	3,225	17,608
5	REFUNDS	—	—	—	—	1,280
6	ELIMINATIONS	—	—	—	—	8
7	PROVINCIAL AND MUNICIPAL, less refunds	—	**416**	**90**	**7,321**	**60,455**
8	PRINCE EDWARD ISLAND—Provincial	—	—	—	—	48
9	Municipal	—	—	—	5	30
10	Sub-Total	—	—	—	*5*	*78*
11	NOVA SCOTIA—Provincial	—	—	—	—	453
12	Municipal	—	—	—	70	172
13	Sub-Total	—	—	—	*70*	*625*
14	NEW BRUNSWICK—Provincial	—	—	—	—	185
15	Municipal	—	—	—	55	74
16	Sub-Total	—	—	—	*55*	*259*
17	QUEBEC—Provincial	—	—	—	312	13,021
18	Municipal	—	—	—	525	7,829
19	Sub-Total	—	—	—	*837*	*20,850*
20	ONTARIO—Provincial	—	—	28	24	10,202
21	Municipal	—	—	—	1,180	5,209
22	Sub-Total	—	—	*28*	*1,204*	*15,411*
23	MANITOBA—Provincial	—	79	10	498	2,942
24	Municipal	—	—	—	530	2,050
25	Sub-Total	—	*79*	*10*	*1,028*	*4,992*
26	SASKATCHEWAN—Provincial	—	46	31	1,633	10,246
27	Municipal	—	—	—	300	500
28	Sub-Total	—	*46*	*31*	*1,933*	*10,746*
29	ALBERTA—Provincial	—	—	21	637	1,929
30	Municipal	—	—	—	300	995
31	Sub-Total	—	—	*21*	*937*	*2,924*
32	BRITISH COLUMBIA—Provincial	—	291	—	992	3,821
33	Municipal	—	—	—	260	749
34	Sub-Total	—	*291*	—	*1,252*	*4,570*

ALL GOVERNMENTS

EXPENDITURE—CURRENT ACCOUNT

TABLE 19 (*Continued*)

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	PUBLIC WELFARE, other than Relief—					
1	ALL GOVERNMENTS	**15,121**	**35,218**	**43,294**	**72,129**	**124,383**
2	DOMINION	2,617	4,411	5,093	13,266	43,834
3	PROVINCIAL	4,343	12,133	18,520	33,388	45,782
4	MUNICIPAL	8,161	18,786	20,686	28,285	35,615
5	REFUNDS	—	112	1,006	2,806	823
6	ELIMINATIONS	—	—	1	4	25
7	PROVINCIAL AND MUNICIPAL, less refunds	**12,504**	**30,807**	**38,200**	**58,867**	**80,574**
8	PRINCE EDWARD ISLAND—Provincial	52	123	113	141	255
9	Municipal	5	8	10	10	20
10	Sub-Total	*57*	*131*	*123*	*151*	*275*
11	NOVA SCOTIA—Provincial	138	479	425	547	1,757
12	Municipal	440	755	973	1,168	1,657
13	Sub-Total	*578*	*1,234*	*1,398*	*1,715*	*3,414*
14	NEW BRUNSWICK—Provincial	100	232	270	441	1,022
15	Municipal	215	800	830	670	923
16	Sub-Total	*315*	*1,032*	*1,100*	*1,111*	*1,945*
17	QUEBEC—Provincial	515	1,057	2,362	5,101	10,557
18	Municipal	1,925	2,825	4,200	5,525	6,871
19	Sub-Total	*2,440*	*3,882*	*6,562*	*10,626*	*17,428*
20	ONTARIO—Provincial	1,522	3,491	6,031	10,557	16,895
21	Municipal	2,150	9,475	9,313	13,660	15,128
22	Sub-Total	*3,672*	*12,966*	*15,344*	*24,217*	*32,023*
23	MANITOBA—Provincial	406	1,858	2,123	3,468	3,194
24	Municipal	1,200	1,500	1,525	1,870	2,160
25	Sub-Total	*1,606*	*3,358*	*3,648*	*5,338*	*5,354*
26	SASKATCHEWAN—Provincial	467	1,524	1,737	3,440	3,613
27	Municipal	500	1,301	1,507	2,403	3,133
28	Sub-Total	*967*	*2,825*	*3,244*	*5,843*	*6,746*
29	ALBERTA—Provincial	270	1,184	1,405	2,416	2,975
30	Municipal	500	939	1,154	1,312	2,553
31	Sub-Total	*770*	*2,123*	*2,559*	*3,728*	*5,528*
32	BRITISH COLUMBIA—Provincial	873	2,073	3,048	4,471	4,691
33	Municipal	1,226	1,183	1,174	1,667	3,170
34	Sub-Total	*2,099*	*3,256*	*4,222*	*6,138*	*7,861*

ALL GOVERNMENTS

TABLE 19

(*Continued*)

EXPENDITURE — CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	EDUCATION—					
1	ALL GOVERNMENTS	**37,515**	**88,057**	**107,231**	**119,191**	**108,899**
2	DOMINION	215	924	1,286	702	272
3	PROVINCIAL	9,600	20,850	25,693	33,780	32,506
4	MUNICIPAL	27,700	66,280	80,282	84,705	76,506
5	REFUNDS	—	—	3	5	385
6	ELIMINATIONS	—	3	27	9	—
7	PROVINCIAL AND MUNICIPAL, less refunds	**37,300**	**87,130**	**105,972**	**118,480**	**108,627**
8	PRINCE EDWARD ISLAND—Provincial	151	241	276	298	350
9	Municipal	65	152	172	190	199
10	Sub-Total	*216*	*393*	*448*	*488*	*549*
11	NOVA SCOTIA—Provincial	394	530	636	924	1,282
12	Municipal	1,077	3,046	3,040	2,862	2,934
13	Sub-Total	*1,471*	*3,576*	*3,676*	*3,786*	*4,216*
14	NEW BRUNSWICK—Provincial	277	442	540	693	731
15	Municipal	615	1,390	2,160	2,130	1,944
16	Sub-Total	*892*	*1,832*	*2,700*	*2,823*	*2,675*
17	QUEBEC—Provincial	1,488	2,033	3,248	4,965	6,185
18	Municipal	5,105	11,835	15,127	15,236	16,516
19	Sub-Total	*6,593*	*13,868*	*18,375*	*20,201*	*22,701*
20	ONTARIO—Provincial	2,653	7,021	9,873	12,895	11,833
21	Municipal	11,229	24,350	32,501	34,601	32,743
22	Sub-Total	*13,882*	*31,371*	*42,374*	*47,496*	*44,576*
23	MANITOBA—Provincial	737	2,057	1,891	2,199	1,671
24	Municipal	2,363	6,213	6,424	6,624	5,236
25	Sub-Total	*3,100*	*8,270*	*8,315*	*8,823*	*6,907*
26	SASKATCHEWAN—Provincial	1,201	2,854	3,289	4,252	3,159
27	Municipal	2,624	9,204	9,451	9,110	5,032
28	Sub-Total	*3,825*	*12,058*	*12,740*	*13,362*	*8,191*
29	ALBERTA—Provincial	731	2,314	2,118	3,170	2,637
30	Municipal	3,165	6,597	7,203	8,545	6,810
31	Sub-Total	*3,896*	*8,911*	*9,321*	*11,715*	*9,447*
32	BRITISH COLUMBIA—Provincial	1,968	3,358	3,819	4,379	4,273
33	Municipal	1,457	3,493	4,204	5,407	5,092
34	Sub-Total	*3,425*	*6,851*	*8,023*	*9,786*	*9,365*

ALL GOVERNMENTS

TABLE 19

EXPENDITURE—CURRENT ACCOUNT

(Continued)

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
1	HIGHWAYS AND TRANSPORTATION—ALL GOVERNMENTS	**56,663**	**80,747**	**63,838**	**99,570**	**73,750**
2	DOMINION (1)	35,467	41,666	14,962	29,083	18,000
3	PROVINCIAL	8,744	8,298	15,814	28,680	25,299
4	MUNICIPAL	14,699	30,962	33,450	42,159	30,559
5	REFUNDS	113	179	388	352	108
6	ELIMINATIONS	2,134	—	—	—	—
7	PROVINCIAL AND MUNICIPAL, less refunds	**23,330**	**39,081**	**48,876**	**70,487**	**55,750**
8	PRINCE EDWARD ISLAND—Provincial	99	119	151	322	335
9	Municipal	25	40	45	58	70
10	Sub-Total	*124*	*159*	*196*	*380*	*405*
11	NOVA SCOTIA—Provincial	333	1,022	1,550	2,153	2,033
12	Municipal	310	753	462	1,030	487
13	Sub-Total	*643*	*1,775*	*2,012*	*3,183*	*2,520*
14	NEW BRUNSWICK—Provincial	357	834	872	1,894	1,154
15	Municipal	285	480	515	575	462
16	Sub-Total	*642*	*1,314*	*1,387*	*2,469*	*1,616*
17	QUEBEC—Provincial	780	233	4,196	9,507	7,420
18	Municipal	3,325	5,850	7,400	9,200	7,850
19	Sub-Total	*4,105*	*6,083*	*11,596*	*18,707*	*15,270*
20	ONTARIO—Provincial	565	1,096	4,110	6,514	7,841
21	Municipal	5,200	13,329	14,732	17,800	13,549
22	Sub-Total	*5,765*	*14,425*	*18,842*	*24,314*	*21,390*
23	MANITOBA—Provincial	406	342	429	1,416	892
24	Municipal	889	2,369	2,003	2,955	2,003
25	Sub-Total	*1,295*	*2,711*	*2,432*	*4,371*	*2,895*
26	SASKATCHEWAN—Provincial	661	1,225	1,151	2,076	1,303
27	Municipal	1,570	2,510	2,482	3,168	1,551
28	Sub-Total	*2,231*	*3,735*	*3,633*	*5,244*	*2,854*
29	ALBERTA—Provincial	82	839	545	1,557	1,337
30	Municipal	1,200	3,116	3,433	4,604	2,825
31	Sub-Total	*1,282*	*3,955*	*3,978*	*6,161*	*4,162*
32	BRITISH COLUMBIA—Provincial	5,348	2,409	2,422	2,889	2,876
33	Municipal	1,895	2,515	2,378	2,769	1,762
34	Sub-Total	*7,243*	*4,924*	*4,800*	*5,658*	*4,638*

(1) Interest on C.N.R. debt included under Net Debt Service.

ALL GOVERNMENTS

TABLE 19 (*Continued*)

EXPENDITURE — CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	PUBLIC DOMAIN—					
1	ALL GOVERNMENTS	**12,820**	**17,298**	**20,045**	**29,236**	**24,258**
2	DOMINION	7,707	11,914	11,291	14,155	9,844
3	PROVINCIAL	5,254	5,486	8,900	15,255	14,460
4	REFUNDS	125	54	106	119	46
5	ELIMINATIONS	16	48	40	55	—
6	PROVINCIAL EXPENDITURE, less refunds	**5,129**	**5,432**	**8,794**	**15,136**	**14,414**
7	PRINCE EDWARD ISLAND	6	—	1	2	8
8	NOVA SCOTIA	18	20	209	371	316
9	NEW BRUNSWICK	76	277	177	353	437
10	QUEBEC	738	1,541	3,460	6,124	7,500
11	ONTARIO	2,449	1,312	2,702	4,510	2,630
12	MANITOBA	92	82	96	452	570
13	SASKATCHEWAN	28	96	103	344	889
14	ALBERTA	81	121	127	366	446
15	BRITISH COLUMBIA	1,641	1,983	1,919	2,614	1,618
	AGRICULTURE—					
16	ALL GOVERNMENTS	**5,583**	**9,424**	**9,944**	**15,248**	**14,287**
17	DOMINION	3,278	5,992	5,839	9,143	8,065
18	PROVINCIAL	2,323	3,831	4,171	6,267	6,234
19	REFUNDS	18	399	66	162	12
20	PROVINCIAL EXPENDITURE, less refunds	**2,305**	**3,742**	**4,105**	**6,105**	**6,222**
21	PRINCE EDWARD ISLAND	—	23	21	4	38
22	NOVA SCOTIA	79	146	141	226	259
23	NEW BRUNSWICK	59	73	107	243	219
24	QUEBEC	421	1,084	1,532	2,549	3,432
25	ONTARIO	393	835	983	1,356	1,013
26	MANITOBA	87	274	228	271	159
27	SASKATCHEWAN	653	546	299	462	378
28	ALBERTA	330	420	386	523	444
29	BRITISH COLUMBIA	283	341	408	471	280

ALL GOVERNMENTS

EXPENDITURE—CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

TABLE 19 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	GENERAL GOVERNMENT AND OTHER CURRENT EXPENDITURES (including Administration of Justice, Legislation, General Government, Miscellaneous Current Expenditures and Post Office)—					
1	ALL GOVERNMENTS	**76,836**	**131,333**	**138,682**	**177,849**	**164,456**
2	DOMINION	55,789	92,381	93,109	120,054	111,225
3	PROVINCIAL	15,341	25,983	28,788	36,972	42,919
4	MUNICIPAL	30,125	51,911	60,931	71,614	66,936
5	REFUNDS	13,139	26,730	31,629	31,756	35,414
6	ELIMINATIONS	11,280	12,212	12,517	19,035	21,210
7	PROVINCIAL AND MUNICIPAL, less refunds	**45,194**	**77,600**	**88,923**	**107,516**	**108,771**
8	PRINCE EDWARD ISLAND—Provincial	100	148	143	183	211
9	Municipal	29	54	64	79	83
10	Sub-Total	*129*	*202*	*207*	*262*	*294*
11	NOVA SCOTIA—Provincial	374	716	729	917	1,089
12	Municipal	614	1,445	1,472	1,606	1,982
13	Sub-Total	*988*	*2,161*	*2,201*	*2,523*	*3,071*
14	NEW BRUNSWICK—Provincial	228	478	481	747	653
15	Municipal	415	1,075	1,340	1,275	1,167
16	Sub-Total	*643*	*1,553*	*1,821*	*2,022*	*1,820*
17	QUEBEC—Provincial	3,052	4,650	6,827	8,952	12,476
18	Municipal	5,925	10,428	12,700	17,500	19,172
19	Sub-Total	*8,977*	*15,078*	*19,527*	*26,452*	*31,648*
20	ONTARIO—Provincial	2,995	6,357	7,966	10,800	14,799
21	Municipal	9,825	22,650	27,800	30,300	24,830
22	Sub-Total	*12,820*	*29,007*	*35,766*	*41,100*	*39,629*
23	MANITOBA—Provincial	1,276	2,316	2,378	2,338	1,927
24	Municipal	3,800	4,700	4,283	5,155	4,700
25	Sub-Total	*5,076*	*7,016*	*6,661*	*7,493*	*6,627*
26	SASKATCHEWAN—Provincial	1,921	3,881	2,494	3,728	3,046
27	Municipal	3,700	3,755	6,040	6,779	4,839
28	Sub-Total	*5,621*	*7,636*	*8,534*	*10,507*	*7,885*
29	ALBERTA—Provincial	2,077	3,143	2,344	2,930	2,337
30	Municipal	1,987	2,802	2,970	3,317	3,627
31	Sub-Total	*4,064*	*5,945*	*5,314*	*6,247*	*5,964*
32	BRITISH COLUMBIA—Provincial	3,046	4,000	4,630	5,307	5,297
33	Municipal	3,830	5,002	4,262	5,603	6,536
34	Sub-Total	*6,876*	*9,002*	*8,892*	*10,910*	*11,833*

ALL GOVERNMENTS

EXPENDITURE—CURRENT ACCOUNT

ANALYSIS BY SERVICES

Thousands of Dollars

TABLE 19 *(Concluded)*

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
1	TOTAL CURRENT EXPENDITURE—ALL GOVERNMENTS	253,207	636,405	633,117	836,095	996,050
2	DOMINION	131,192	381,345	313,506	418,689	513,877
3	PROVINCIAL	48,860	91,386	126,955	187,926	261,053
4	MUNICIPAL	100,398	204,883	240,311	285,728	282,037
5	REFUNDS	14,377	27,611	33,357	35,371	38,262
6	ELIMINATIONS	12,866	13,598	14,298	20,877	22,655
7	PROVINCIAL AND MUNICIPAL, less refunds	147,779	295,536	364,870	469,128	540,537
	PROVINCES AND MUNICIPALITIES—					
8	PRINCE EDWARD ISLAND—Provincial	445	705	800	1,074	1,466
9	Municipal	149	309	349	417	517
10	Sub-Total	*594*	*1,014*	*1,149*	*1,491*	*1,983*
11	NOVA SCOTIA—Provincial	1,654	3,565	4,960	6,737	9,805
12	Municipal	2,934	6,661	6,844	7,840	8,490
13	Sub-Total	*4,588*	*10,226*	*11,804*	*14,577*	*18,295*
14	NEW BRUNSWICK—Provincial	1,354	3,393	3,958	6,383	7,185
15	Municipal	1,780	4,130	5,420	5,415	5,656
16	Sub-Total	*3,134*	*7,523*	*9,378*	*11,798*	*12,841*
17	QUEBEC—Provincial	7,960	12,833	24,405	39,585	67,459
18	Municipal	20,800	41,238	53,597	65,821	80,978
19	Sub-Total	*28,760*	*54,071*	*78,002*	*105,406*	*148,437*
20	ONTARIO—Provincial	10,455	22,243	38,975	56,315	83,752
21	Municipal	34,414	82,504	100,496	118,366	108,039
22	Sub-Total	*44,869*	*104,747*	*139,471*	*174,681*	*191,791*
23	MANITOBA—Provincial	3,608	8,225	8,984	12,424	15,056
24	Municipal	10,107	18,337	18,240	21,359	19,900
25	Sub-Total	*13,715*	*26,562*	*27,224*	*33,783*	*34,956*
26	SASKATCHEWAN—Provincial	5,413	11,415	10,893	18,777	28,717
27	Municipal	9,929	19,376	21,933	24,557	17,774
28	Sub-Total	*15,342*	*30,791*	*32,826*	*43,334*	*46,491*
29	ALBERTA—Provincial	3,182	10,621	11,549	15,931	(1)15,664
30	Municipal	9,048	16,416	17,818	21,407	19,123
31	Sub-Total	*12,230*	*27,037*	*29,367*	*37,338*	*34,787*
32	BRITISH COLUMBIA—Provincial	13,310	17,653	20,035	26,174	29,396
33	Municipal	11,237	15,912	15,614	20,546	21,560
34	Sub-Total	*24,547*	*33,565*	*35,649*	*46,720*	*50,956*

(1) Excludes unpaid interest estimated at 3,400.

ALL GOVERNMENTS

TABLE 20

NET DEBT CHARGES [1]

AS A PERCENTAGE OF CURRENT REVENUES

Item No.	——	For the fiscal years ended nearest to December 31					
		1913 %	1921 %	1926 %	1930 %	1933 %	1937 %
1	ALL GOVERNMENTS	**12·57**	**31·63**	**25·43**	**29·47**	*	**27·26**
2	DOMINION AND CANADIAN NATIONAL RAILWAYS	**9·03**	**45·86**	**34·07**	**47·48**	**67·42**	**35·98**
3	PROVINCES AND MUNICIPALITIES	**14·22**	**16·00**	**17·28**	**17·36**	*	**19·10**
4	PROVINCES	**5·13**	**15·91**	**18·65**	**16·96**	**33·39**	**20·82**
5	MUNICIPALITIES	**17·94**	**16·04**	**16·60**	**17·59**	*	**17·74**
	PROVINCES AND MUNICIPALITIES—						
6	PRINCE EDWARD ISLAND—Provincial	7·1	6·4	10·9	11·1	15·4	13·9
7	Municipal	16·2	17·0	15·3	17·5	*	24·4
8	Provincial and Municipal	9·2	9·5	12·3	12·9	*	16·3
9	NOVA SCOTIA—Provincial	19·0	19·5	31·9	23·1	35·3	25·9
10	Municipal	16·5	9·4	11·5	13·3	*	13·7
11	Provincial and Municipal	17·4	12·6	18·4	17·8	*	20·1
12	NEW BRUNSWICK—Provincial	18·3	38·7	37·2	31·9	55·3	36·9
13	Municipal	13·8	9·0	10·2	12·4	*	16·5
14	Provincial and Municipal	15·8	20·6	21·5	22·6	*	27·4
15	QUEBEC—Provincial	11·4	10·8	9·0	4·9	16·3	12·1
16	Municipal	21·6	22·7	24·4	24·8	*	27·0
17	Provincial and Municipal	18·7	18·9	19·0	17·4	*	21·0
18	ONTARIO—Provincial	1·3	9·8	19·0	17·5	34·7	21·3
19	Municipal	15·4	14·1	14·5	15·6	*	13·2
20	Provincial and Municipal	12·2	13·2	15·6	16·2	*	16·5
21	MANITOBA—Provincial	14·8	16·6	17·8	15·9	36·8	24·3
22	Municipal	16·5	16·2	19·1	18·1	*	18·7
23	Provincial and Municipal	16·1	16·3	18·7	17·4	*	21·1
24	SASKATCHEWAN—Provincial	8·3	13·3	14·2	21·8	42·9	36·0
25	Municipal	14·2	10·3	10·0	9·9	*	12·8
26	Provincial and Municipal	12·1	11·1	11·4	13·7	*	23·1
27	ALBERTA—Provincial	11·2	33·4	42·7	32·4	49·4	(2)19·6
28	Municipal	19·4	14·9	12·9	14·4	*	11·2
29	Provincial and Municipal	12·2	20·1	22·2	21·0	*	(2)15·1
30	BRITISH COLUMBIA—Provincial	1·5	19·3	17·3	21·0	33·6	21·2
31	Municipal	24·4	23·3	20·2	21·3	*	20·2
32	Provincial and Municipal	13·7	21·2	18·6	21·1	*	20·8

(1) Excludes debt retirement.
(2) At reduced rates.
* Information not available.

COMPARATIVE STATISTICS OF PUBLIC FINANCE

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PRINCE EDWARD ISLAND — TABLE 21

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	868	1,114	1,161	1,497	1,586	1,630	1,712
	LESS							
2	Personal Income Taxes	66	61	27	35	34	51	65
3	Corporation Taxes	116	82	126	161	165	167	173
4	Mining Tax Rebate estimate	—	—	—	—	—	—	—
5	Succession Duties	19	26	31	43	45	68	68
6	Sub-Total	*201*	*169*	*184*	*239*	*244*	*286*	*306*
7	Subsidies	382	507	507	657	657	657	657
8	Sub-Total	*583*	*676*	*691*	*896*	*901*	*943*	*963*
9	REMAINING REVENUE	285	438	470	601	685	687	749
	Of which—							
10	Public Domain	—	—	—	—	—	—	—
11	Mining Tax Rebate estimate	—	—	—	—	—	—	—
12	Liquor Control	57	23	30	55	40	58	68
13	Gasoline Taxes	32	124	164	200	269	285	316
14	Automobile Licences	72	146	95	112	145	155	155
15	Other Revenues	124	145	181	234	231	189	210
16	EXPENDITURE, Current Account	800	1,074	1,152	1,333	1,466	1,495	1,551
	LESS—							
17	Net Debt Service	95	124	179	221	221	247	291
18	Direct Relief—Employables	—	—	—	14	21	50	(1)50
19	Cost of Tax Collections, estimate	8	7	7	10	10	11	12
20	Sub-Total	*103*	*131*	*186*	*245*	*252*	*308*	*353*
21	REMAINING EXPENDITURE	697	943	966	1,088	1,214	1,187	1,198
	Of which—							
22	Old Age Pensions	—	—	20	60	65	71	77
23	Other Public Welfare (2)	113	141	158	195	217	218	206
24	Education	276	298	322	337	350	363	367
25	Highways	151	322	271	270	335	276	274
26	Development	22	6	18	34	46	56	57
27	General Government	94	107	103	117	116	122	135
28	Of which cost of Tax Collections	8	7	7	10	10	11	12
29	All other Current Expenditures	49	76	81	85	95	92	94
30	SURPLUS (excluding Sinking Funds) before Transfers	68	40	9	164	120	135	161
31	DEFICIT after Transfers but before National Adjustment Grant	412	505	496	487	529	500	449
32	National Adjustment Grant	*	*	*	750	750	750	750
33	BALANCE	*	*	*	263	221	250	301

(1) Estimated (not included in provincial estimates).
(2) Including relief for unemployables and agricultural relief administration.

* Not shown.
— Nil.

PRINCE EDWARD ISLAND

TABLE 21

(*Concluded*)

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	380	429	445	452	472		
D	Municipal expenditures	366	442	466	490	532		
E	Relief to employables	—	5	14	20	30		
G	Remaining municipal expenditures	366	437	452	470	502		
H	Deficit or Surplus—before adjustments	14	13	21	38	60		
J	Deficit or Surplus—after adjustments	14	8	7	18	30		
K	In addition, municipal share of municipal relief works was	—	—	—	25	34		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	651	649	635	610
II	National Adjustment Grant	*	*	*	750	750	750	750
III	Total (excluding Sinking Funds)	*	*	*	*99*	*101*	*115*	*140*
IV	Former provincial Sinking Funds	27	48	109	146	208	220	229
V	Total (including Sinking Funds)	*	*	*	*245*	*309*	*335*	*369*
VI	Relief works charged to Capital Account	—	—	—	218	288	34	*
VII	Net gain to provincial government	*	*	*	**463**	**597**	**369**	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	—	5	14	20	30	—	—
IX	Municipal share of relief works	—	—	—	25	34	—	—
X	Net gain to municipal governments	—	**5**	**14**	**45**	**64**	—	—
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	265	339	(1)365	(2)399
XII	AND INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**508**	**661**	(1)**433**	(2)**467**

(1) Assuming 1937 municipal relief and relief works expenditures.

(2) Assuming 1937 municipal relief and relief works expenditures, and 1938 provincial relief works expenditures.

* Not shown.

— Nil.

NOVA SCOTIA

TABLE 22

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	3,987	6,918	6,233	9,532	10,112	11,035	11,276
	LESS—							
2	Personal Income Taxes	—	—	—	—	—	—	—
3	Corporation Taxes	779	913	880	1,118	1,122	1,211	1,332
4	Mining Tax Rebate estimate	80	75	40	160	200	150	150
5	Succession Duties	470	341	242	629	504	784	550
6	Sub-Total	*1,169*	*1,179*	*1,082*	*1,587*	*1,426*	*1,845*	*1,732*
7	Subsidies	662	1,670	1,528	1,953	1,953	1,953	1,953
8	Sub-Total	*1,831*	*2,849*	*2,610*	*3,540*	*3,379*	*3,798*	*3,685*
9	REMAINING REVENUE	2,156	4,069	3,623	5,992	6,733	7,237	7,591
	Of which—							
10	Public Domain	489	821	488	740	832	854	868
11	Mining Tax Rebate estimate	80	75	40	160	200	150	150
12	Liquor Control	50	391	470	1,105	1,441	1,492	1,550
13	Gasoline Taxes	124	791	945	1,730	1,971	2,382	2,636
14	Automobile Licences	600	1,043	1,042	1,249	1,409	1,421	1,471
15	Other Revenues	813	948	638	1,008	880	938	916
16	EXPENDITURE, Current Account	4,960	6,737	8,189	8,877	9,805	10,185	10,700
	LESS—							
17	Net Debt Service	1,270	1,599	2,201	2,435	2,616	2,867	3,084
18	Direct Relief—Employables	—	—	472	—	236	302	191
19	Cost of Tax Collections, estimate	50	50	45	70	65	80	76
20	Sub-Total	*1,320*	*1,649*	*2,718*	*2,505*	*2,917*	*3,249*	*3,351*
21	REMAINING EXPENDITURE	3,640	5,088	5,471	6,372	6,888	6,936	7,349
	Of which—							
22	Old Age Pensions	—	—	—	646	670	706	739
23	Other Public Welfare [1]	425	547	1,209	1,196	1,304	1,349	1,355
24	Education	636	924	1,076	1,210	1,282	1,307	1,396
25	Highways	1,550	2,153	1,757	1,945	2,033	2,134	2,207
26	Development	350	597	515	521	575	492	572
27	General Government	315	448	396	520	555	644	701
28	Of which cost of Tax Collections	50	50	45	70	65	80	76
29	All other Current Expenditures	414	469	563	404	534	384	455
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	973	181	1,956	655	307	850	576
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	1,484	1,019	1,848	380	155	301	242
32	National Adjustment Grant	*	*	*	800	800	800	800
33	BALANCE	*	*	*	420	645	1,101	1,042

[1] Including relief for unemployables and agricultural relief administration.
* Not shown. — Nil.

NOVA SCOTIA

TABLE 22 (*Concluded*)

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	7,778	8,301	8,710	9,120	9,175		
B	Income taxes	59	78	45	48	47		
C	Remaining municipal revenues	7,719	8,223	8,665	9,072	9,128		
D	Municipal expenditures	7,279	8,288	9,176	8,844	9,040		
E	Relief to employables	—	70	652	178	172		
G	Remaining municipal expenditures	7,279	8,218	8,524	8,666	8,868		
H	Deficit or Surplus—before adjustments	499	13	466	276	135		
J	Surplus—after adjustments	440	5	141	406	260		
K	In addition, municipal share of municipal relief works was	—	—	18	3	69		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	1,035	462	549	334
II	National Adjustment Grant	*	*	*	800	800	800	800
III	Total (excluding Sinking Funds)	*	*	*	*235*	*338*	*251*	*466*
IV	Former provincial Sinking Funds	190	269	404	378	285	362	459
V	Total (including Sinking Funds)	*	*	*	*143*	*623*	*613*	*925*
VI	Relief works charged to Capital Account	—	—	791	1,057	1,173	464	*
VII	Net gain to provincial government	*	*	*	1,200	1,796	1,077	*
	MUNICIPAL GOVERNMENT—							
VIII	Current Account	59	8	607	130	125	*	*
IX	Municipal share of relief works	—	—	18	3	69	*	*
X	Net gain to municipal governments	59	8	625	133	194	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	273	748	(1)738	(2)1,050
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	1,333	1,990	(1)1,271	(2)1,583

(1) Assuming 1937 municipal relief and relief works expenditures.
(2) Assuming 1937 municipal relief and relief works expenditures, and 1938 provincial relief works expenditures.
* Not shown.
— Nil.

NEW BRUNSWICK

TABLE 23

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	4,064	6,304	5,007	6,598	7,543	8,253	8,802
	LESS —							
2	Personal Income Taxes	—	—	—	—	—	—	—
3	Corporation Taxes	644	457	539	522	520	948	946
4	Mining Tax Rebate estimate	9	12	7	13	14	19	22
5	Succession Duties	294	289	210	619	398	279	400
6	Sub-Total	*929*	*734*	*742*	*1,128*	*904*	*1,208*	*1,324*
7	Subsidies	667	1,267	1,297	1,567	1,567	1,567	1,567
8	Sub-Total	*1,596*	*2,001*	*2,039*	*2,695*	*2,471*	*2,775*	*2,891*
9	REMAINING REVENUE	2,468	4,303	2,968	3,903	5,072	5,478	5,911
	Of which—							
10	Public Domain	1,046	880	557	741	1,087	978	792
11	Mining Tax Rebate estimate	9	12	7	13	14	19	22
12	Liquor Control	417	1,544	545	783	1,105	1,154	1,300
13	Gasoline Taxes	118	646	806	1,154	1,640	1,629	2,250
14	Automobile Licences	555	874	756	888	875	1,322	1,157
15	Other Revenues	323	347	297	324	351	376	390
16	EXPENDITURE, Current Account	3,958	6,383	5,737	6,878	7,204	8,210	8,099
	LESS —							
17	Net Debt Service	1,511	2,012	2,768	2,644	2,784	3,411	3,400
18	Direct Relief—Employables	—	—	252	324	28	149	(1)70
19	Cost of Tax Collections, estimate	38	30	30	46	37	49	54
20	Sub-Total	*1,549*	*2,042*	*3,050*	*3,014*	*2,849*	*3,609*	*3,524*
21	REMAINING EXPENDITURE	2,409	4,341	2,687	3,864	4,355	4,601	4,575
	Of which—							
22	Old Age Pensions	—	—	—	210	501	563	557
23	Other Public Welfare (2)	270	440	543	622	712	703	655
24	Education	540	693	598	697	731	787	816
25	Highways	872	1,894	700	1,204	1,154	1,249	1,180
26	Development	284	597	380	558	640	683	666
27	General Government	231	316	262	344	356	375	417
28	Of which cost of Tax Collections	38	30	30	46	37	49	54
29	All other Current Expenditures	250	431	234	275	298	290	338
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	106	79	730	280	339	43	703
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	59	38	281	39	717	877	1,336
32	National Adjustment Grant	*	*	*	1,500	1,500	1,500	1,500
33	BALANCE	*	*	*	1,539	2,217	2,377	2,836

(1) Commission estimate; not included in budget.
(2) Including relief for unemployables and agricultural relief administration.

* Not shown.
— Nil.

NEW BRUNSWICK

TABLE 23 (Concluded)

PLAN 1

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	5,625	5,735	6,000	6,195	6,585		
B	Income taxes(1)	—	—	—	110	129		
C	Remaining municipal revenues	5,625	5,735	6,000	6,085	6,456		
D	Municipal expenditures	5,590	5,655	6,272	6,066	6,009		
E	Relief to employables	—	55	389	119	74		
G	Remaining municipal expenditures	5,590	5,600	5,883	5,947	5,935		
H	Deficit or Surplus—before adjustments	**35**	**80**	**272**	**129**	**576**		
J	Surplus—after adjustments	**35**	**135**	**117**	**138**	**521**		
K	In addition, municipal share of municipal relief works was	—	—	115	—	15		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	319	378	834	633
II	National Adjustment Grant	*	*	*	1,500	1,500	1,500	1,500
III	Total (excluding Sinking Funds)	*	*	*	*1,819*	*1,878*	*2,334*	*2,133*
IV	Former provincial Sinking Funds	306	571	191	332	323	408	455
V	Total (including Sinking Funds)	*	*	*	*2,151*	*2,201*	*2,742*	*2,588*
VI	Relief works charged to Capital Account	—	—	365	905	614	*	*
VII	Net gain to provincial government	*	*	*	**3,056**	**2,815**	*	*
	MUNICIPAL GOVERNMENT—							
VIII	Current Account	—	55	389	9	55	*	*
IX	Municipal share of relief works	—	—	115	—	15	*	*
X	Net gain to municipal governments	—	**55**	**504**	**9**	**40**	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**2,160**	**2,146**	(2)**2,687**	(2)**2,533**
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**3,065**	**2,775**	(2)**3,316**	(2)**3,162**

(1) Saint John income surtax only. Other "income" taxes, on a flat rate basis, are assumed to be the equivalent of property taxes. They are estimated as follows:—1926, 844; 1930, 866; 1933, 900; 1936, 852; 1937, 1,077.

(2) Assuming 1937 municipal relief and provincial-municipal relief works expenditures.

* Not shown. — Nil.

QUEBEC

TABLE 24

PLAN I

Thousands of Dollars

Item No.		1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	31,060	42,603	30,401	43,204	56,888	63,623	62,897
	LESS—							
2	Personal Income Taxes	—	—	—	—	—	—	—
3	Corporation Taxes	2,719	4,503	4,290	(1)5,006	(1)9,665	13,288	11,450
4	Mining Tax Rebate estimate	312	525	700	1,660	2,200	2,300	2,470
5	Succession Duties	3,691	6,873	3,297	(1)4,786	(1)11,197	12,402	9,300
6	Sub-Total	*6,098*	*10,851*	*6,887*	*8,132*	*18,662*	*23,390*	*18,280*
7	Subsidies	2,256	2,256	2,592	2,592	2,592	2,592	2,592
8	Sub-Total	*8,354*	*13,107*	*9,479*	*10,724*	*21,254*	*25,982*	*20,872*
9	REMAINING REVENUE	22,706	29,496	20,922	32,480	35,634	37,641	42,025
	Of which—							
10	Public Domain	7,116	5,411	2,897	5,328	6,362	8,491	6,504
11	Mining Tax Rebate estimate	312	525	700	1,660	2,200	2,300	2,470
12	Liquor Control	6,891	9,180	2,367	6,312	7,052	7,413	9,325
13	Gasoline Taxes	1,211	4,380	4,791	6,530	7,298	7,883	10,500
14	Automobile Licences	3,390	5,410	5,205	6,484	7,184	6,878	7,500
15	Other Revenues	3,786	4,590	4,962	6,166	5,538	4,676	5,726
16	EXPENDITURE, Current Account	24,405	39,585	45,660	58,780	67,459	62,937	58,008
	LESS—							
17	Net Debt Service	2,780	2,075	4,952	5,577	6,868	8,121	9,011
18	Direct Relief—Employables	—	312	5,743	8,730	11,454	4,333	4,466
19	Cost of Tax Collections, estimate	192	341	228	294	626	771	623
20	Sub-Total	*2,972*	*2,728*	*10,923*	*14,601*	*18,948*	*13,225*	*14,100*
21	REMAINING EXPENDITURE	21,433	36,857	34,737	44,179	48,511	49,712	43,908
	Of which—							
22	Old Age Pensions	—	—	—	1,828	2,877	4,435	2,740
23	Other Public Welfare (2)	2,362	5,210	8,031	9,666	9,814	9,470	10,531
24	Education	3,248	4,965	5,742	4,602	6,185	6,281	5,452
25	Highways	4,196	9,507	5,419	6,022	7,420	7,802	6,325
26	Development	4,992	8,564	6,955	12,236	10,365	10,225	7,544
27	General Government	2,926	3,682	3,917	4,633	5,960	6,507	6,596
28	Of which cost of Tax Collections	192	341	228	294	626	771	623
29	All other Current Expenditures	3,901	5,270	4,901	5,486	6,516	5,763	5,343
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	6,655	3,018	15,259	15,576	10,571	686	4,889
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	1,273	7,361	13,815	11,699	12,877	12,071	1,883
32	National Adjustment Grant	*	*	*	8,000	8,000	8,000	8,000
33	BALANCE	*	*	*	3,699	4,877	4,071	6,117

( ) After adjustment for uncollected taxes receivable.
(2) Including relief for unemployables and agricultural relief administration.
* Not shown.
— Nil.

QUEBEC

PLAN I

TABLE 24 (*Concluded*)

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenue	58,125	71,961	79,608	83,304	84,268		
B	Income taxes	—	—	—	1,486	1,694	2,049	
C	Remaining municipal revenues	58,125	71,961	79,608	81,818	82,574		
D	Municipal expenditures	57,482	71,382	85,827	88,328	89,458		
E	Relief to employables	—	525	7,696	9,829	7,829		
F	Debt interest assumed by senior governments (1)	3,981	5,882	5,629	5,850	4,975		
F1	Sinking funds on debt assumed by senior governments	1,092	1,834	2,095	2,139	1,855		
G	Remaining municipal expenditures	52,409	63,141	70,407	70,510	74,799		
H	Deficit or Surplus—before adjustments	**643**	**579**	**6,219**	**5,024**	**5,190**		
J	Surplus—after adjustments	**5,716**	**8,820**	**9,201**	**11,308**	**7,775**		
K	In addition, municipal share of municipal relief works was	—	—	1,167	—	—		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	3,877	2,306	12,757	6,772
II	National Adjustment Grant	*	*	*	8,000	8,000	8,000	8,000
III	Total (excluding Sinking Funds)	*	*	*	*11,877*	*5,694*	*4,757*	*1,228*
IV	Former provincial Sinking Funds	1,795	1,104	1,815	3,782	3,155	3,240	3,335
V	Total (including Sinking Funds)	*	*	*	*15,659*	*8,849*	*1,517*	*4,563*
VI	Relief works charged to Capital Account	—	739	1,255	4,188	1,386	23,426	*
VII	Net gain to provincial government	*	*	*	**19,847**	**10,235**	**21,909**	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	5,073	8,241	15,420	16,332	12,965	*	*
IX	Municipal share of relief works	—	—	1,167	—	—	*	*
X	Net gain to municipal governments	**5,073**	**8,241**	**16,587**	**16,332**	**12,965**	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**31,991**	**21,814**	**11,093**	**17,173**
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**36,179**	**23,200**	(2)**34,519**	(3)**40,599**

(1) Dominion assumes either provincial net debt interest or 40% of combined provincial and municipal net debt interest—whichever is the larger. Quebec is the only case in which 40% of the combined interest is larger.
(2) Assuming 1937 municipal expenditures for relief, debt interest and sinking funds on debt assumed by senior governments.
(3) Assuming 1938 municipal gain and provincial relief works expenditures.
* Not shown. — Nil.

ONTARIO

TABLE 25

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Estimates)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	38,283	55,284	52,093	83,192	87,104	87,074	91,620
	LESS—							
2	Personal Income Taxes	—	—	—	4,918	6,041	6,000	6,000
3	Corporation Taxes	3,836	4,173	7,224	10,686	10,377	10,710	11,708
4	Mining Tax Rebate estimate	2,100	2,800	3,700	6,200	7,700	7,300	8,400
5	Succession Duties	8,762	11,229	8,081	15,991	20,214	18,000	17,000
6	Sub-Total	*10,498*	*12,602*	*11,605*	*25,395*	*28,932*	*27,410*	*26,308*
7	Subsidies	2,642	2,642	2,941	2,941	2,941	2,941	2,941
8	Sub-Total	*13,140*	*15,244*	*14,546*	*28,336*	*31,873*	*30,351*	*29,249*
9	REMAINING REVENUE	25,143	40,040	37,547	54,856	55,231	56,723	62,371
	Of which—							
10	Public Domain	5,469	4,300	2,494	4,649	5,350	5,226	3,901
11	Mining Tax Rebate estimate	2,100	2,800	3,700	6,200	7,700	7,300	8,400
12	Liquor Control	1,084	10,285	5,973	9,462	10,456	10,500	10,750
13	Gasoline Taxes	3,376	10,757	12,629	15,762	17,644	18,200	25,000
14	Automobile Licences	6,398	5,520	7,415	10,910	8,777	10,080	9,290
15	Other Revenues	6,716	6,378	5,336	7,873	5,304	5,417	5,030
16	EXPENDITURE, Current Account	38,975	56,315	65,113	73,147	83,752	87,689	92,869
	LESS—							
17	Net Debt Service	7,282	9,659	18,081	19,397	18,539	18,762	20,232
18	Direct Relief—Employables	28	24	9,361	11,427	8,347	7,935	7,945
19	Cost of Tax Collections, estimate	378	462	459	948	1,099	1,041	1,041
19a	Subsidies to municipalities in lieu of income tax	—	—	—	—	2,921	3,000	4,450
20	Sub-Total	*7,688*	*10,145*	*27,901*	*31,772*	*30,906*	*30,738*	*33,668*
21	REMAINING EXPENDITURE	31,287	46,170	37,212	41,375	52,846	56,951	59,201
	Of which—							
22	Old Age Pensions	—	2,122	1,551	1,935	3,164	3,420	3,493
23	Other Public Welfare (1)	6,031	8,435	10,204	11,640	15,586	17,757	18,476
24	Education	9,873	12,895	11,281	10,564	11,833	13,051	13,483
25	Highways	4,110	6,514	3,669	5,224	7,841	8,164	9,234
26	Development (2)	3,685	7,555	3,532	4,636	5,413	6,106	6,453
27	General Government	3,343	3,987	3,770	3,921	4,800	5,277	5,160
28	Of which cost of Tax Collections	378	462	459	948	1,099	1,041	1,041
29	All other Current Expenditures	4,623	5,124	3,664	4,403	5,308	4,217	3,943
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	692	1,031	13,020	10,045	3,352	615	1,249
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	6,144	6,130	335	13,481	2,385	228	3,170
32	National Adjustment Grant	*	*	*	—	—	—	—
33	BALANCE	*	*	*	13,481	2,385	228	3,170

(1) Includes relief for unemployables and agricultural relief administration.
(2) Includes Ontario rural power transmission lines bonus:—1930, 1,689; 1933, 277; 1936, 1,000; 1937, 1,770; 1938, 1,963; 1939, 2,500.
* Not shown. — Nil.

ONTARIO

TABLE 25

(*Concluded*)

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Estimates)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	111,754	133,366	136,164	128,920	128,557		
B	Income taxes or provincial subsidy in lieu of income taxes	3,121	3,715	3,098	2,277	2,921	3,000	4,450
C	Remaining municipal revenues	108,633	129,651	133,066	126,643	125,636		
D	Municipal expenditures	110,571	133,197	135,077	126,915	126,601		
E	Relief to employables	—	1,180	6,956	7,615	5,209		
G	Remaining municipal expenditures	110,571	132,017	128,121	119,300	121,392		
H	Surplus—before adjustments	1,183	169	1,087	2,005	1,956		
J	Deficit or Surplus—after adjustments	1,938	2,366	4,945	7,343	4,244		
K	In addition, municipal share of municipal relief works was	—	—	109	7	100		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	3,436	967	387	4,419
II	National Adjustment Grant	*	*	*	—	—	—	—
III	Total (excluding Sinking Funds)	*	*	*	*3,436*	*967*	*387*	*4,419*
IV	Former provincial Sinking Funds	215	—	—	1,017	1,041	(1)1,000	(1)1,000
V	Total (including Sinking Funds)	*	*	*	*4,453*	*74*	*1,387*	*5,419*
VI	Relief works charged to Capital Account	—	—	2,164	2,457	5,252	*	*
VII	Net gain to provincial government	*	*	*	**6,910**	**5,326**	*	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	3,121	2,535	3,858	5,338	2,288	*	*
IX	Municipal share of relief works	—	—	109	7	100	*	*
X	Net gain to municipal governments	3,121	2,535	3,967	5,345	2,388	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**9,791**	**2,362**	(2)**3,596**	(2)**6,178**
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**12,255**	**7,714**	(2)**8,948**	(2)**11,530**

(1) Commission estimate; not included in budget.
(2) Assuming 1937 municipal relief and provincial-municipal relief works expenditures.

* Not shown.
— Nil.

MANITOBA

TABLE 26

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	10,287	11,191	12,061	13,979	15,247	15,265	14,379
	LESS—							
2	Personal Income Taxes	562	845	2,491	2,737	2,789	1,919	1,985
3	Corporation Taxes	1,103	1,164	1,602	1,827	1,854	2,119	2,130
4	Mining Tax Rebate estimate	31	55	90	226	316	344	370
5	Succession Duties	757	452	424	464	404	605	425
6	Sub-Total	*2,391*	*2,406*	*4,427*	*4,802*	*4,731*	*4,299*	*4,170*
7	Subsidies	1,492	1,586	1,705	1,703	2,453	2,458	2,458
8	Sub-Total	*3,883*	*3,992*	*6,132*	*6,505*	*7,184*	*6,757*	*6,628*
9	REMAINING REVENUE	6,404	7,199	5,929	7,474	8,063	8,508	7,751
	Of which—							
10	Public Domain	144	319	578	878	603	820	603
11	Mining Tax Rebate estimate	31	55	90	226	316	344	370
12	Liquor Control	1,367	1,930	963	1,530	1,753	1,700	1,600
13	Gasoline Taxes	446	1,185	1,611	2,015	2,316	2,537	2,150
14	Automobile Licences	713	1,127	895	1,129	1,323	1,060	1,175
15	Other Revenues	3,703	2,583	1,792	1,696	1,752	2,047	1,853
16	EXPENDITURE, Current Account	8,984	12,424	14,527	15,506	15,056	15,136	16,320
	LESS—							
17	Net Debt Service	1,829	1,782	4,438	3,896	3,701	3,633	3,698
18	Direct Relief—Employables	10	498	2,101	3,078	2,584	1,943	(1)2,640
19	Cost of Tax Collections, estimate	97	98	181	201	202	186	182
20	Sub-Total	*1,936*	*2,378*	*6,720*	*7,175*	*6,487*	*5,762*	*6,520*
21	REMAINING EXPENDITURE	7,048	10,046	7,807	8,331	8,569	9,374	9,800
	Of which—							
22	Old Age Pensions	—	800	541	684	714	701	732
23	Other Public Welfare (2)	2,123	2,668	2,470	2,697	2,839	3,013	3,134
24	Education	1,891	2,199	1,696	1,552	1,671	1,841	1,947
25	Highways	429	1,416	683	704	892	1,120	1,170
26	Development	324	723	712	903	728	915	818
27	General Government	890	1,163	925	998	1,011	1,010	1,162
28	Of which cost of Tax Collections	97	98	181	201	202	186	182
29	All other Current Expenditures	1,488	1,175	961	994	916	960	1,019
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	1,303	1,233	2,466	1,527	191	129	1,941
31	DEFICIT after Transfers but before National Adjustment Grant	644	2,847	1,878	857	506	866	2,049
32	National Adjustment Grant	*	*	*	2,100	2,100	2,100	2,100
33	BALANCE	*	*	*	1,243	1,594	1,234	51

(1) Commission estimate; not included in budget.
(2) Includes relief for unemployables and agricultural relief administration.

* Not shown.
— Nil.

MANITOBA

TABLE 26

(*Concluded*)

PLAN I

Thousands of Dollars

Item No.		1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	20,990	23,310	22,991	20,260	20,067		
D	Municipal expenditures	20,090	22,879	24,421	21,139	21,294		
E	Relief to employables	—	530	1,929	2,108	2,050		
G	Remaining municipal expenditures	20,090	22,349	22,492	19,031	19,244		
H	Deficit or Surplus—before adjustments	900	431	1,430	879	1,227		
J	Deficit or Surplus—after adjustments	900	961	499	1,229	823		
K	In addition, municipal share of municipal relief works was	—	208	—	494	407		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	670	697	995	108
II	National Adjustment Grant	*	*	*	2,100	2,100	2,100	2,100
III	Total (excluding Sinking Funds)	*	*	*	*2,770*	*1,403*	*1,105*	*1,992*
IV	Former provincial Sinking Funds	130	228	338	379	378	378	378
V	Total (including Sinking Funds)	*	*	*	*3,149*	*1,781*	*1,483*	*2,370*
VI	Relief works charged to Capital Account	—	117	13	874	320	*	*
VII	Net gain to provincial government	*	*	*	**4,023**	**2,101**	*	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	—	530	1,929	2,108	2,050	*	*
IX	Municipal share of relief works	—	208	—	494	407	*	*
X	Net gain to municipal governments	—	**738**	**1,929**	**2,602**	**2,457**	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**5,257**	**3,831**	(1)**3,533**	(1)**4,420**
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**6,625**	**4,558**	(1)**4,260**	(1)**5,147**

(1) Assuming 1937 municipal relief and provincial-municipal relief works expenditures.

* Not shown.

— Nil.

SASKATCHEWAN

TABLE 27

PLAN I

Thousands of Dollars

Item No.		1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	12,577	13,025	11,547	13,864	16,902	18,589	17,898
	LESS—							
2	Personal Income Taxes	—	—	251	299	353	305	(1)300
3	Corporation Taxes	865	987	1,231	1,228	1,219	1,254	(1)1,329
4	Mining Tax Rebate estimate	12	24	25	140	260	156	178
5	Succession Duties	290	318	149	311	241	394	300
6	Sub-Total	*1,143*	*1,281*	*1,606*	*1,698*	*1,553*	*1,797*	*1,751*
7	Subsidies	2,032	1,938	2,129	2,120	5,620	5,626	(2)3,620
8	Sub-Total	*3,175*	*3,219*	*3,735*	*3,818*	*7,173*	*7,423*	*5,371*
9	REMAINING REVENUE	9,402	9,806	7,812	10,046	9,729	11,166	12,527
	Of which—							
10	Public Domain	246	425	510	715	800	673	833
11	Mining Tax Rebate estimate	12	24	25	140	260	156	178
12	Liquor Control	2,148	1,553	937	1,470	1,266	1,310	1,420
13	Gasoline Taxes	—	1,919	1,421	2,098	1,995	1,969	2,500
14	Automobile Licences	1,510	1,887	1,571	1,895	1,581	1,706	1,850
15	Other Revenues	5,486	3,998	3,348	3,728	3,827	5,352	5,746
16	EXPENDITURE, Current Account	10,893	18,777	19,842	23,836	28,717	30,711	25,189
	LESS—							
17	Net Debt Service	1,789	2,842	4,957	5,758	6,083	6,021	(1)6,200
18	Direct Relief—Employables	31	1,633	5,617	(3)6,973	9,776	10,302	(4)5,573
19	Cost of Tax Collections, estimate	46	52	65	73	72	78	77
20	Sub-Total	*1,866*	*4,527*	*10,639*	*12,804*	*15,931*	*16,401*	*11,850*
21	REMAINING EXPENDITURE	9,027	14,250	9,203	11,032	12,786	14,310	13,339
	Of which—							
22	Old Age Pensions	—	896	531	683	739	770	823
23	Other Public Welfare (5)	1,737	2,494	2,609	3,112	3,344	3,440	3,311
24	Education	3,289	4,252	2,359	2,830	3,159	3,855	3,867
25	Highways	1,151	2,076	755	920	1,303	1,475	1,190
26	Development	402	856	642	737	1,267	1,434	1,062
27	General Government	1,335	1,632	1,426	1,526	1,536	1,796	1,846
28	Of which cost of Tax Collections	46	52	65	73	72	78	77
29	All other Current Expenditures	1,159	2,096	946	1,297	1,510	1,618	1,317
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	1,684	5,752	8,295	9,972	11,815	12,122	7,291
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	375	4,444	1,391	986	3,057	3,144	812
32	National Adjustment Grant	*	*	*	1,750	1,750	1,750	1,750
32a	Emergency Grant	*	*	*	1,500	4,000	4,000	2,000
33	BALANCE	*	*	*	2,264	2,693	2,606	2,938

(1) Estimated by Commission.
(2) Includes 1,500 special subsidy, per provincial estimates; in 1937 and 1938 this subsidy amounted to 3,500.
(3) Includes certain expenditures subsequently assumed by the Dominion.
(4) Not included in budget; estimated.
(5) Including relief for unemployables.
* Not shown.
— Nil.

SASKATCHEWAN

TABLE 27 (*Concluded*)

PLAN I

Thousands of Dollars

Item No.		1926 (*Actual*)	1930 (*Actual*)	1933 (*Actual*)	1936 (*Actual*)	1937 (*Actual*)	1938 (*Actual*)	1939 (*Estimates*)
	MUNICIPALITIES							
A	Municipal revenues	24,652	28,185	26,993	21,400	21,234		
D	Municipal expenditures	23,294	25,875	25,158	19,600	18,519		
E	Relief to employables	—	300	600	500	500		
G	Remaining municipal expenditures	23,294	25,575	24,558	19,100	18,019		
H	Surplus—before adjustments	1,358	2,310	1,835	1,800	2,715		
J	Surplus—after adjustments	1,358	2,610	2,435	2,300	3,215		
K	In addition, municipal share of municipal relief works was	—	98	1	2	—		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	8,986	8,758	8,978	6,479
II	National Adjustment Grant and Emergency Grant	*	*	*	3,250	5,750	5,750	3,750
III	Total (excluding Sinking Funds)	*	*	*	*12,236*	*14,508*	*14,728*	*10,229*
IV	Former provincial Sinking Funds	31	180	153	358	28	57	427
V	Total (including Sinking Funds)	*	*	*	*12,594*	*14,536*	*14,785*	*10,656*
VI	Relief works charged to Capital Account	—	550	—	—	—	*	*
VII	Net gain to provincial government	*	*	*	**12,594**	**14,536**	*	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	—	300	600	500	500	*	*
IX	Municipal share of relief works	—	98	1	2	—	*	*
X	Net gain to municipal governments	—	**398**	**601**	**502**	**500**	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**13,094**	**15,036**	(1)**15,285**	(1)**11,156**

(1) Assuming 1937 municipal relief expenditures, and no provincial or municipal relief works expenditures.

* Not shown.

— Nil.

ALBERTA

TABLE 28

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	10,770	13,385	12,191	16,465	18,199	18,633	17,720
	LESS—							
2	Personal Income Taxes	—	—	432	538	665	650	600
3	Corporation Taxes	857	994	1,271	1,554	2,132	2,474	2,396
4	Mining Tax Rebate estimate	324	365	157	280	384	600	620
5	Succession Duties	254	553	257	343	1,326	372	300
6	Sub-Total	*787*	*1,182*	*1,803*	*2,155*	*3,739*	*2,896*	*2,676*
7	Subsidies	1,645	1,671	1,758	1,776	1,776	1,782	1,787
8	Sub-Total	*2,432*	*2,853*	*3,561*	*3,931*	*5,515*	*4,678*	*4,463*
9	REMAINING REVENUE	8,338	10,532	8,630	12,534	12,684	13,955	13,257
	Of which—							
10	Public Domain	518	795	972	1,541	1,686	1,666	1,829
11	Mining Tax Rebate estimate	324	365	157	280	384	600	620
12	Liquor Control	1,941	1,888	1,251	2,400	2,590	2,755	2,600
13	Gasoline Taxes	424	1,932	1,783	2,553	2,610	2,953	2,750
14	Automobile Licences	1,162	1,711	1,686	1,542	1,772	2,232	2,101
15	Other Revenues	3,969	3,841	2,781	4,218	3,642	3,749	3,357
16	EXPENDITURE, Current Account	11,549	15,931	16,011	[1]18,739	[2]19,064	[2]18,859	[2] [3]19,503
	LESS—							
17	Net Debt Service	4,603	4,332	6,027	[1]6,491	[2]6,959	[2]6,582	[2] [3]6,250
18	Direct Relief—Employables	21	637	1,235	2,229	1,540	932	1,064
19	Cost of Tax Collections, estimate	44	62	78	97	165	140	131
20	Sub-Total	*4,668*	*5,031*	*7,340*	*8,817*	*8,664*	*7,654*	*7,445*
21	REMAINING EXPENDITURE	6,881	10,900	8,671	9,922	10,400	11,205	12,058
	Of which—							
22	Old Age Pensions	—	322	280	432	445	478	528
23	Other Public Welfare [4]	1,426	2,154	2,368	2,810	3,064	2,976	3,490
24	Education	2,118	3,170	2,438	2,569	2,637	2,803	2,901
25	Highways	545	1,557	781	1,024	1,337	1,289	1,420
26	Development	492	829	654	782	745	1,044	781
27	General Government	1,017	1,305	1,328	1,548	1,632	1,695	2,145
28	Of which cost of Tax Collections	44	62	78	97	165	140	131
29	All other Current Expenditures	1,327	1,625	900	854	705	1,060	924
30	DEFICIT (excluding Sinking Funds) before Transfers	779	2,546	3,820	[1]2,274	[2]865	[2] [3]226	[2] [3]1,783
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	1,457	368	41	2,612	2,284	2,750	1,199
32	National Adjustment Grant	*	*	*	—	—	—	—
33	BALANCE	*	*	*	2,612	2,284	2,750	1,199

[1] Includes 2,695 unpaid interest.
[2] Includes provision for unpaid interest (estimated):—1937, 3,400; 1938, 3,300; 1939, 3,200.
[3] Includes adjustment, 272, in respect of Alberta Government Telephones for surplus earnings to repay advances.
[4] Including relief for unemployables and agricultural relief administration. * Not shown. — Nil.

ALBERTA

TABLE 28 (Concluded)

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	23,689	23,093	22,806	21,973	20,589		
D	Municipal expenditures	19,156	22,889	22,177	20,918	20,162		
E	Relief to employables	—	300	1,102	1,358	995		
G	Remaining municipal expenditures	19,156	22,589	21,075	19,560	19,167		
H	Surplus—before adjustments	4,533	204	629	1,055	427		
J	Surplus—after adjustments	4,533	504	1,731	2,413	1,422		
K	In addition, municipal share of municipal relief works was	—	500	10	—	97		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	(1)4,886	(2)3,149	(2)2,976	(2) (3)2,982
II	National Adjustment Grant	*	*	*	—	—	—	—
III	Total (excluding Sinking Funds)	*	*	*	*4,886*	*3,149*	*2,976*	*2,982*
IV	Former provincial Sinking Funds	388	696	744	3	—	—	—
V	Total (including Sinking Funds)	*	*	*	*4,889*	*3,149*	*2,976*	*2,982*
VI	Relief works charged to Capital Account	—	660	31	684	460	*	*
VII	Net gain to provincial government	*	*	*	**5,573**	**3,609**	*	*
VIII	But interest now unpaid is	—	—	—	2,695	3,400	3,300	3,200
IX	Allowing for this net gain would be (excluding relief works)	*	*	*	2,194	251	*	*
X	Allowing for this net gain would be (including relief works)	*	*	*	2,878	209	*	*
	MUNICIPAL GOVERNMENTS—							
XI	Current Account	—	300	1,102	1,358	995	*	*
XII	Municipal share of relief works	—	500	10	—	97	*	*
XIII	Net gain to municipal governments	—	**800**	**1,112**	**1,358**	**1,092**	*	*
	SUMMARY— COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS—							
XIV	Assuming full interest were paid	*	*	*	**6,247**	**4,144**	(4)3,971	(4)3,977
XV	On basis of current interest payments	*	*	*	**3,552**	**744**	(4)671	(4)777
	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS—							
XVI	Assuming full interest were paid	*	*	*	**6,931**	**4,701**	(4)4,528	(4)4,534
XVII	On basis of current interest payments	*	*	*	**4,236**	**1,301**	(4)1,228	(4)1,334

(1) Includes 2,695 unpaid interest. (2) Includes provision for unpaid interest (estimated):—1937, 3,400; 1938, 3,300; 1939, 3,200.
(3) Includes adjustment, 272, in respect of Alberta Government Telephones for surplus earnings to repay advances.
(4) Assuming 1937 municipal relief and provincial-municipal relief works expenditures. * Not shown. — Nil.

BRITISH COLUMBIA

TABLE 29

PLAN I

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	PROVINCIAL GOVERNMENT							
1	REVENUE, Current Account	21,861	23,999	19,589	27,811	30,893	32,437	28,816
	LESS—							
2	Personal Income Taxes	889	1,216	2,046	1,959	2,002	2,500	(1)2,000
3	Corporation Taxes	4,103	5,247	3,582	6,145	6,948	8,907	(1)6,266
4	Mining Tax Rebate estimate	1,830	600	300	1,750	2,100	1,600	1,800
5	Succession Duties	767	699	477	972	1,428	804	890
6	Sub-Total	*3,929*	*6,562*	*5,805*	*7,326*	*8,278*	*10,611*	*7,356*
7	Subsidies	739	739	875	1,625	1,625	1,625	1,625
8	Sub-Total	*4,668*	*7,301*	*6,680*	*8,951*	*9,903*	*12,236*	*8,981*
9	REMAINING REVENUE	17,193	16,698	12,909	18,860	20,990	20,201	19,835
	Of which—							
10	Public Domain	4,658	4,086	2,794	4,134	4,415	3,946	4,086
11	Mining Tax Rebate estimate	1,830	600	300	1,750	2,100	1,600	1,800
12	Liquor Control	3,637	4,191	2,314	3,607	4,095	3,892	3,850
13	Gasoline Taxes	680	1,753	2,055	2,720	3,163	3,284	3,150
14	Automobile Licences	1,614	2,189	1,943	2,627	2,871	2,906	3,000
15	Other Revenues	4,774	3,879	3,503	4,022	4,346	4,573	3,949
16	EXPENDITURE, Current Account	20,035	26,174	22,656	27,915	29,396	30,356	30,618
	LESS—							
17	Net Debt Service	3,789	5,051	6,580	6,665	6,540	6,363	6,662
18	Direct Relief—Employables	—	992	3,234	3,983	3,408	3,270	(2)3,376
19	Cost of Tax Collections, estimate	230	286	244	363	415	488	366
20	Sub-Total	*4,019*	*6,329*	*10,058*	*11,011*	*10,363*	*10,121*	*10,404*
21	REMAINING EXPENDITURE	16,016	19,845	12,598	16,904	19,033	20,235	20,214
	Of which—							
22	Old Age Pensions	—	562	409	555	588	633	808
23	Other Public Welfare (3)	3,048	3,909	2,891	4,104	4,516	5,412	5,253
24	Education	3,819	4,379	3,236	3,977	4,273	4,403	4,355
25	Highways	2,422	2,889	1,515	2,427	2,876	2,744	2,709
26	Development	2,327	3,085	1,201	1,782	1,898	2,044	2,200
27	General Government	1,702	2,298	1,785	2,292	2,782	3,040	3,018
28	Of which cost of Tax Collections	230	286	244	363	415	488	366
29	All other Current Expenditures	2,928	3,009	1,805	2,130	2,515	2,447	2,237
30	DEFICIT OR SURPLUS (excluding Sinking Funds) before Transfers	1,826	2,175	3,067	104	1,497	2,081	1,802
31	DEFICIT OR SURPLUS after Transfers but before National Adjustment Grant	1,177	3,147	311	1,956	1,957	34	379
32	National Adjustment Grant	*	*	*	—	—	—	—
33	BALANCE	*	*	*	1,956	1,957	34	379

(1) Division estimated.
(2) Not included in budget; estimated.
(3) Includes relief for unemployables and agricultural relief administration.

* Not shown.
— Nil.

BRITISH COLUMBIA

TABLE 29

PLAN I

(Concluded)

Thousands of Dollars

Item No.	——	1926 (Actual)	1930 (Actual)	1933 (Actual)	1936 (Actual)	1937 (Actual)	1938 (Actual)	1939 (Estimates)
	MUNICIPALITIES							
A	Municipal revenues	17,839	22,775	24,320	20,550	21,039		
D	Municipal expenditures	17,139	22,497	25,225	21,372	22,603		
E	Relief to employables	—	260	1,072	751	749		
G	Remaining municipal expenditures	17,139	22,237	24,153	20,621	21,854		
H	Deficit or Surplus—before adjustments	700	278	905	822	1,564		
J	Deficit or Surplus—after adjustments	700	538	167	71	815		
K	In addition, municipal share of municipal relief works was	—	733	2	98	11		
	NET GAIN TO PROVINCIAL AND MUNICIPAL GOVERNMENTS							
	PROVINCIAL GOVERNMENT—							
I	Gain or loss on Transfers before National Adjustment Grant	*	*	*	2,060	460	2,115	1,423
II	National Adjustment Grant	*	*	*	—	—	—	—
III	Total (excluding Sinking Funds)	*	*	*	*2,060*	*460*	*2,115*	*1,423*
IV	Former provincial Sinking Funds	1,630	2,159	586	658	853	3,727	752
V	Total (including Sinking Funds)	*	*	*	*2,718*	*1,313*	*1,612*	*2,175*
VI	Relief works charged to Capital Account	—	—	—	1,250	1,335	825	*
VII	Net gain to provincial government	*	*	*	**3,968**	**2,648**	**2,437**	*
	MUNICIPAL GOVERNMENTS—							
VIII	Current Account	—	260	1,072	751	749	*	*
IX	Municipal share of relief works	—	733	2	98	11	*	*
X	Net gain to municipal governments	—	**993**	**1,074**	**849**	**760**	*	*
	SUMMARY—							
XI	COMBINED PROVINCIAL-MUNICIPAL GAIN, INCLUDING PROVINCIAL SINKING FUNDS	*	*	*	**3,469**	**2,062**	(1)**2,361**	(2)**2,924**
XII	AND, INCLUDING PROVINCIAL AND MUNICIPAL RELIEF WORKS	*	*	*	**4,817**	**3,408**	(1)**3,197**	(2)**3,760**

(1) Assuming 1937 municipal relief and provincial-municipal relief works expenditures.
(2) Assuming 1937 municipal relief and relief works, and 1938 provincial relief works.

* Not shown.
— Nil.

TABLE 30

PLAN I

COST TO THE DOMINION GOVERNMENT

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31						
		1926	1930	1933	1936	1937	1938	1939
1	Provincial net debt service	24,948	29,476	50,183	(1)53,084	(1)54,311	(1)56,007	(1)58,828
2	Municipal net debt service (2)	3,981	5,882	5,174	5,810	4,975	(3)4,975	(3)4,975
3	Relief to employables—Provincial governments	90	4,096	28,015	36,758	37,394	29,216	25,375
4	Excess cost relief works included in Item (3)	—	934	185	1,141	6,566	(3)500	(3)
5	Municipalities	—	3,225	20,410	22,478	17,608	(3)17,608	(3)17,608
6	Direct relief equivalent of provincial and municipal relief works	—	1,442	2,416	4,905	4,624	(3)12,851	(3)12,851
7	Savings in Dominion share if direct relief substituted for works	—	1,652	1,069	6,905	4,537	1,900	(3)5,000
8	Sub-Total—Relief to employables	*90*	*6,177*	*49,587*	*56,095*	*48,523*	*57,275*	*50,834*
9	National Adjustment Grants	*	*	*	14,900	14,900	14,900	14,900
10	Emergency Grants	*	*	*	1,500	4,000	4,000	2,000
11	GRAND TOTAL	*	*	*	**131,389**	**126,709**	**137,157**	**131,537**
12	Present subsidies	12,517	14,276	15,332	16,934	21,184	21,201	19,200
13	GROSS COST of Plan I to Dominion	*	*	*	**114,455**	**105,525**	**115,956**	**112,337**
14	Provincial income, corporation and inheritance taxes less mining tax apportionment	27,145	36,966	34,141	52,462	68,469	73,742	63,903
15	Quebec, New Brunswick and Nova Scotia municipal income taxes	59	78	45	1,644	1,870	(3)2,225	(3)2,225

(1) Includes provision for unpaid interest in Alberta: 1936, 2,695; 1937, 3,400; 1938, 3,300; 1939, 3,200.
(2) Quebec—interest only.
(3) Estimated.
* Not shown.
— Nil.

TABLE 31

ALL GOVERNMENTS

RELIEF EXPENDITURES (1)

SUMMARY BY PURPOSES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1930	1933	1936	1937	1938	1939
	RELIEF EXPENDITURES THROUGH PROVINCIAL-MUNICIPAL AGENCIES—						
1	Employables	10,461	76,445	110,777	109,550	78,815	78,448
2	Unemployables (2)	*	5,256	5,428	5,471	5,518	5,561
3	Relief Works	3,605	6,042	12,252	11,541	(3)*	*
4	Agricultural and Miscellaneous	3,037	2,322	5,372	25,792	*	*
5	Sub-Total	*17,103*	*90,065*	*133,829*	*152,354*		
6	RELIEF EXPENDITURES THROUGH DOMINION'S OWN AGENCIES	1,292	7,879	26,463	12,802	16,492	35,465
7	TOTAL RELIEF EXPENDITURES	**18,395**	**97,944**	**160,292**	**165,156**		

* Not shown.

(1) For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

(2) Provincial share only. Municipal share of expenditures for unemployables is included in Public Welfare expenditures, Table 43.

(3) Information not available for all provinces; in Quebec provincial relief works expenditures amounted to 23,426.

ALL GOVERNMENTS

TABLE 32

RELIEF EXPENDITURES[1]

(Through Provincial-Municipal Agencies)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1930	1933	1936	1937	1938	1939
	RELIEF TO EMPLOYABLES—						
1	DOMINION	3,140	28,020	51,541	54,547	32,091	35,465
2	PRINCE EDWARD ISLAND—Provincial	—	—	14	21	50	50
3	Municipal	5	14	20	30	30	30
4	Sub-Total	*5*	*14*	*34*	*51*	*80*	*80*
5	NOVA SCOTIA—Provincial	—	472	—	236	302	191
6	Municipal	70	652	178	172	172	172
7	Sub-Total	*70*	*1,124*	*178*	*408*	*474*	*363*
8	NEW BRUNSWICK—Provincial	—	252	324	28	149	70
9	Municipal	55	389	119	74	74	74
10	Sub-Total	*55*	*641*	*443*	*102*	*223*	*144*
11	QUEBEC—Provincial	312	5,743	8,730	11,454	4,333	4,466
12	Municipal	525	7,696	9,829	7,829	7,829	7,829
13	Sub-Total	*837*	*13,439*	*18,559*	*19,283*	*12,162*	*12,295*
14	ONTARIO—Provincial	24	9,361	11,427	8,347	7,935	7,945
15	Municipal	1,180	6,956	7,615	5,209	5,209	5,209
16	Sub-Total	*1,204*	*16,317*	*19,042*	*13,556*	*13,144*	*13,154*
17	MANITOBA—Provincial	498	2,101	3,078	2,584	1,943	2,640
18	Municipal	530	1,929	2,108	2,050	2,050	2,050
19	Sub-Total	*1,028*	*4,030*	*5,186*	*4,634*	*3,993*	*4,690*
20	SASKATCHEWAN—Provincial	1,633	5,617	6,973	9,777	10,302	5,573
21	Municipal	300	600	500	500	500	500
22	Sub-Total	*1,933*	*6,217*	*7,473*	*10,277*	*10,802*	*6,073*
23	ALBERTA—Provincial	637	1,235	2,229	1,540	832	1,064
24	Municipal	300	1,102	1,358	995	995	995
25	Sub-Total	*937*	*2,337*	*3,587*	*2,535*	*1,827*	*2,059*
26	BRITISH COLUMBIA—Provincial	992	3,234	3,983	3,408	3,270	3,376
27	Municipal	260	1,072	751	749	749	749
28	Sub-Total	*1,252*	*4,306*	*4,734*	*4,157*	*4,019*	*4,125*
29	ALL GOVERNMENTS—Dominion	3,140	28,020	51,541	54,547	32,091	35,465
30	Provincial	4,096	28,015	36,758	37,395	29,116	25,375
31	Municipal	3,225	20,410	22,478	17,608	17,608	17,608
32	TOTAL	**10,461**	**76,445**	**110,777**	**109,550**	**78,815**	**78,448**

[1] For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

ALL GOVERNMENTS

TABLE 32
(Continued)

RELIEF EXPENDITURES (1)

(Through Provincial-Municipal Agencies)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1930	1933	1936	1937	1938	1939
	RELIEF TO UNEMPLOYABLES, PROVINCIAL SHARE (2)						
1	PRINCE EDWARD ISLAND	—	25	27	27	28	28
2	NOVA SCOTIA	—	209	215	217	219	221
3	NEW BRUNSWICK	—	168	174	176	178	180
4	QUEBEC	—	1,485	1,548	1,567	1,587	1,607
5	ONTARIO	—	1,782	1,845	1,855	1,865	1,875
6	MANITOBA	—	355	355	358	360	360
7	SASKATCHEWAN	—	466	465	469	470	470
8	ALBERTA	—	374	386	389	392	396
9	BRITISH COLUMBIA	—	392	413	413	419	424
10	TOTAL, PROVINCIAL SHARE (2)	—	5,256	5,428	5,471	5,518	5,561

(1) For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

(2) Municipal share included in Public Welfare expenditures, Table 43.

ALL GOVERNMENTS

RELIEF EXPENDITURES

(Through Provincial-Municipal Agencies)

Thousands of Dollars

TABLE 32 *(Continued)*

Item No.		For the fiscal years ended nearest to December 31					
		1930	1933	1936	1937	1938	1939
	RELIEF WORKS—						
1	DOMINION (included in relief to employables)	—	—	—	—		
2	PRINCE EDWARD ISLAND—Provincial	—	—	218	288		
3	Municipal	—	—	25	34		
4	Sub-Total	—	—	*243*	*322*		
5	NOVA SCOTIA—Provincial	—	791	1,057	1,173		
6	Municipal	—	18	3	69		
7	Sub-Total	—	*809*	*1,060*	*1,242*		
8	NEW BRUNSWICK—Provincial	—	365	905	614		
9	Municipal	—	115	—	15		
10	Sub-Total	—	*480*	*905*	*629*		
11	QUEBEC—Provincial	739	1,255	4,188	1,386	23,426	
12	Municipal	—	1,167	—	—	—	
13	Sub-Total	*739*	*2,422*	*4,188*	*1,386*	*23,426*	
14	ONTARIO—Provincial	—	2,164	2,457	5,252	*	
15	Municipal	—	109	7	100		
16	Sub-Total	—	*2,273*	*2,464*	*5,352*		
17	MANITOBA—Provincial	117	13	874	731		
18	Municipal	208	—	494	407		
19	Sub-Total	*325*	*13*	*1,368*	*1,138*		
20	SASKATCHEWAN—Provincial	550	—	10	—		
21	Municipal	98	1	2	—		
22	Sub-Total	*648*	*1*	*8*	—		
23	ALBERTA—Provincial	660	32	684	460		
24	Municipal	500	10	—	97		
25	Sub-Total	*1,160*	*42*	*684*	*557*		
26	BRITISH COLUMBIA—Provincial	—	—	1,250	904		
27	Municipal	733	2	98	11		
28	Sub-Total	*733*	*2*	*1,348*	*915*		
	ALL GOVERNMENTS—						
29	Dominion (included in relief to employables)	—	—	—	—		
30	Provincial	2,066	4,620	11,623	10,808		
31	Municipal	1,539	1,422	629	733		
32	TOTAL	**3,605**	**6,042**	**12,252**	**11,541**		

* Not shown. — Nil.

ALL GOVERNMENTS

TABLE 32
(Concluded)

RELIEF EXPENDITURES

(Through Provincial-Municipal Agencies)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1930	1933	1936	1937	1938	1939
	AGRICULTURAL AND MISCELLANEOUS RELIEF—						
	PROVINCES—						
1	Prince Edward Island	—	—	—	—	—	—
2	Nova Scotia	—	—	—	—	—	—
3	New Brunswick	—	—	—	—	—	—
4	Quebec	135	223	755	618	*	*
5	Ontario	—	63	65	3	*	*
6	Manitoba	7	196	219	180	*	*
	Saskatchewan—						
7	Provincial	2,754	52	3,445	24,056	*	*
8	Municipal	—	1,097	6	—	*	*
9	Sub-Total—Saskatchewan	*2,754*	*1,149*	*3,451*	*24,056*	*	*
	Alberta—						
10	Provincial	141	646	872	504	*	*
11	Municipal	—	45	10	—	*	*
12	Sub-Total—Alberta	*141*	*691*	*882*	*504*	*	*
13	British Columbia	—	—	—	431	*	*
14	TOTAL	3,037	2,322	5,372	25,792	*	*

* Not shown.
— Nil.

ALL GOVERNMENTS

RELIEF EXPENDITURES

SUMMARY BY GOVERNMENTS

Thousands of Dollars

Item No.	
	THROUGH PROVINCIAL-MUNICIPAL AGENCIES
	DOMINION SHARE—([1])
1	Prince Edward Island
2	Nova Scotia
3	New Brunswick
4	Quebec
5	Ontario
6	Manitoba
7	Saskatchewan
8	Alberta
9	British Columbia
10	TOTAL—DOMINION SHARE
	PROVINCIAL SHARE—([3])
11	Prince Edward Island
12	Nova Scotia
13	New Brunswick ([4])
14	Quebec
15	Ontario
16	Manitoba
17	Saskatchewan
18	Alberta
19	British Columbia
20	TOTAL—PROVINCIAL SHARE
	MUNICIPAL SHARE—([6])
21	Prince Edward Island
22	Nova Scotia
23	New Brunswick
24	Quebec
25	Ontario
26	Manitoba
27	Saskatchewan
28	Alberta
29	British Columbia
30	TOTAL—MUNICIPAL SHARE

([1]) Dominion share on basis of Dominion fiscal years.

([2]) Gross; refunds unallocated amount as follows: Quebec, 28; Ontario, 4; Manitoba, 54; Saskatchewan, 915; Alberta, 178; British Columbia, 4; total, 1,183.

([3]) Provincial share on basis of provincial fiscal years; includes expenditures charged to current and capital account.

([4]) Provincial share for New Brunswick estimated from Relief Questionnaire.

ALL GOVERNMENTS

TABLE 33

RELIEF EXPENDITURES

SUMMARY BY GOVERNMENTS

Thousands of Dollars

For the fiscal years ended nearest to December 31								Total	Item No.
1930	1931	1932	1933	1934	1935	1936	1937		
THROUGH PROVINCIAL-MUNICIPAL AGENCIES									
21	183	50	22	221	286	315	177	1,275	1
62	904	1,376	1,072	797	1,336	1,258	693	7,498	2
250	745	404	606	439	1,121	947	563	5,075	3
320	5,110	5,846	4,669	11,308	7,890	10,361	(2)7,969	53,473	4
1,220	9,351	9,515	11,935	15,538	15,482	15,120	(2)7,395	85,556	5
285	3,329	2,828	2,470	2,159	3,319	5,059	(2)3,479	22,928	6
536	7,915	7,104	2,427	8,026	7,181	11,297	(2)27,510	71,996	7
187	2,566	2,605	1,452	1,645	1,805	3,639	(2)3,664	17,563	8
259	3,428	4,078	3,367	3,174	2,274	3,545	(2)3,097	23,222	9
3,140	**33,531**	**33,806**	**28,020**	**43,307**	**40,694**	**51,541**	(2)**54,547**	**288,586**	10
—	125	149	25	130	602	259	336	1,626	11
—	1,184	1,764	1,472	910	1,234	1,272	1,626	9,462	12
—	1,421	49	785	611	1,127	1,403	818	6,214	13
1,186	9,064	7,543	8,706	11,496	10,755	15,221	15,025	78,996	14
24	5,060	13,925	13,370	36,479	30,669	15,794	15,457	130,778	15
622	2,952	2,613	2,665	3,177	3,578	4,526	(5)3,853	23,986	16
4,937	15,833	5,567	6,135	12,866	10,137	10,874	34,302	100,651	17
1,438	2,806	2,237	2,287	3,203	3,841	4,170	2,893	22,875	18
992	3,527	3,614	3,626	5,469	7,575	5,646	5,156	35,605	19
9,199	**41,972**	**37,461**	**39,071**	**74,341**	**69,518**	**59,165**	**79,466**	**410,193**	20
5	12	42	14	62	51	45	64	295	21
70	472	685	670	683	475	181	241	3,477	22
55	400	47	504	295	159	119	89	1,668	23
525	3,078	5,449	8,863	9,041	7,900	9,829	7,829	52,514	24
1,180	6,921	9,921	7,065	8,635	8,328	7,622	5,309	54,981	25
738	2,301	1,939	1,929	2,151	2,924	2,602	2,457	17,041	26
398	265	532	1,698	187	1,295	508	500	5,383	27
800	1,315	1,026	1,157	1,149	1,393	1,368	1,092	9,300	28
993	1,452	1,196	1,074	1,268	1,475	849	760	9,067	29
4,764	**16,216**	**20,837**	**22,974**	**23,471**	**24,000**	**23,123**	**18,341**	**153,726**	30

(5) Does not include municipal bank loans guaranteed, amount of these being uncertain.

(6) Municipal share in Prince Edward Island, Nova Scotia, New Brunswick, Saskatchewan, Alberta and British Columbia on basis of provincial fiscal years; in Ontario, direct relief is on the calendar year basis and relief works on the provincial fiscal year basis; in Manitoba, on basis of fiscal year ending March 31; in Quebec, amounts shown are estimated on the basis of figures for the city of Montreal, whose fiscal year ends April 30.

ALL GOVERNMENTS

RELIEF EXPENDITURES

SUMMARY BY GOVERNMENTS

Thousands of Dollars

Item No.		
	TOTAL RELIEF EXPENDITURES (Dominion, Provincial and Municipal Shares combined)—	
1	Prince Edward Island	
2	Nova Scotia	
3	New Brunswick (1)	
4	Quebec	
5	Ontario	
6	Manitoba	
7	Saskatchewan	
8	Alberta	
9	British Columbia	
10	TOTAL—COMBINED EXPENDITURE	
	RECAPITULATION	
	EXPENDITURE THROUGH PROVINCIAL-MUNICIPAL AGENCIES—	
11	TOTAL—DOMINION SHARE	
12	TOTAL—PROVINCIAL SHARE	
13	TOTAL—MUNICIPAL SHARE	
14	TOTAL—EXPENDITURE, through Provincial-Municipal Agencies	
15	ADD—DOMINION EXPENDITURE, through own agencies	
16	TOTAL—COMBINED EXPENDITURE	

(1) Provincial share for New Brunswick estimated from Relief Questionnaire.
(2) Does not include 18,487 written off relief advances to provinces.

ALL GOVERNMENTS

TABLE 33
(Concluded)

RELIEF EXPENDITURES

SUMMARY BY GOVERNMENTS

Thousands of Dollars

For the fiscal years ended nearest to December 31									Item No.
1930	**1931**	**1932**	**1933**	**1934**	**1935**	**1936**	**1937**	Total	
26	320	241	61	413	939	619	577	3,196	1
132	2,560	3,825	3,214	2,390	3,045	2,711	2,560	20,437	2
305	2,566	500	1,895	1,345	2,407	2,469	1,470	12,957	3
2,031	17,252	18,838	22,238	31,845	26,545	35,411	30,823	184,983	4
2,424	21,332	33,361	32,370	60,652	54,479	38,536	28,161	271,315	5
1,645	8,582	7,380	7,064	7,487	9,821	12,187	9,789	63,955	6
5,871	24,013	13,203	10,260	21,079	18,613	22,679	62,312	178,030	7
2,425	6,687	5,868	4,896	5,997	7,039	9,177	7,649	49,738	8
2,244	8,407	8,888	8,067	9,911	11,324	10,040	9,013	67,894	9
17,103	**91,719**	**92,104**	**90,065**	**141,119**	**134,212**	**133,829**	**152,354**	**852,505**	10
3,140	33,531	33,806	28,020	43,307	40,694	51,541	54,547	288,586	11
9,199	41,972	37,461	39,071	74,341	69,518	59,165	79,466	410,193	12
4,764	16,216	20,837	22,974	23,471	24,000	23,123	18,341	153,726	13
17,103	**91,719**	**92,104**	**90,065**	**141,119**	**134,212**	**133,829**	**152,354**	**852,505**	14
1,292	4,765	2,915	7,879	17,353	38,722	([2])26,463	12,802	112,191	15
18,395	**96,484**	**95,019**	**97,944**	**158,472**	**172,934**	**160,292**	**165,156**	**964,696**	16

PRINCE EDWARD ISLAND

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	1	7	18	22
2	Provincial Share	—	7	12	25
3	Municipal Share	5	—	1	14
4	Sub-Total	*6*	*14*	*31*	*61*
	RELIEF WORKS—				
5	Dominion Share of Provincial Works	20	161	25	—
6	Dominion Share of Municipal Works	—	15	7	—
7	Provincial Share of Provincial Works	—	113	114	—
8	Provincial Share of Municipal Works	—	5	23	—
9	Municipal Share of Municipal Works	—	12	41	—
10	Sub-Total	*20*	*306*	*210*	—
11	TOTAL	**26**	**320**	**241**	**61**
	SUMMARY				
12	Dominion Share, as reported by the Dominion	21	183	50	22
13	Provincial Share—Current Account	—	12	35	25
14	Provincial Share—Capital Account	—	113	114	—
15	Municipal Share	5	12	42	14
16	TOTAL, as above	**26**	**320**	**241**	**61**

(1) Dominion share, on the basis of Dominion fiscal years ended March 31st. Provincial and Municipal shares, on the basis of fiscal years ended December 31st.

PRINCE EDWARD ISLAND

TABLE 34

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
36	25	59	88	Appendix B, p. 18	1
24	32	22	18	Appendix B, p. 11	2
21	15	20	30	Provincial Government	3
81	*72*	*101*	*136*		4
185	256	245	77	Appendix B, p. 18	5
—	5	11	12	Appendix B, p. 18	6
98	563	218	288	Appendix B, p. 8	7
8	7	19	30	Appendix B, p. 11	8
41	36	25	34	Provincial Government	9
332	*867*	*518*	*441*		10
413	**939**	**619**	**577**		11
221	286	315	177	Appendix B, p. 18	12
32	39	41	48	Appendix B, p. 11	13
98	563	218	288	Appendix B, p. 8	14
62	51	45	64	Provincial Government	15
					16
413	**939**	**619**	**577**		

NOVA SCOTIA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	8	178	416	638
2	Provincial Share	—	112	216	674
3	Municipal Share	70	32	291	652
4	Sub-Total	*78*	*322*	*923*	*1,964*
	RELIEF WORKS—				
5	Dominion Share of Provincial Works	—	447	874	433
6	Dominion Share of Municipal Works	54	279	86	1
7	Provincial Share of Provincial Works	—	928	1,376	791
8	Provincial Share of Municipal Works	—	144	172	7
9	Municipal Share of Municipal Works	—	440	394	18
10	Sub-Total	*54*	*2,238*	*2,902*	*1,250*
11	TOTAL	**132**	**2,560**	**3,825**	**3,214**
	SUMMARY				
12	Dominion Share, as reported by the Dominion	62	904	1,376	1,072
13	Provincial Share—Current Account	—	256	388	681
14	Provincial Share—Capital Account	—	928	1,376	791
15	Municipal Share	70	472	685	670
16	TOTAL, as above	**132**	**2,560**	**3,825**	**3,214**

(1) Dominion share, on the basis of Dominion fiscal years, ended March 31st. Provincial and Municipal shares, on the basis of fiscal years ended September 30th, years 1930-1934; and November 30th, years 1935-1937; year 1935 represents 14 month period.

(2) Includes 40 special adjustment.

TABLE 35

NOVA SCOTIA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
583	613	794	380	Appendix C, p. 20	1
559	404	(2)135	345	Appendix C, p. 12	2
591	426	178	172	Provincial Government	3
1,733	*1,443*	*1,107*	*897*		4
150	713	464	313	Appendix C, p. 20	5
64	10	—	—	Appendix C, p. 20	6
276	796	1,057	1,173	Appendix C, p. 4	7
75	34	80	108	Appendix C, p. 12	8
92	49	3	69	Provincial Government	9
657	*1,602*	*1,604*	*1,663*		10
2,390	**3,045**	**2,711**	**2,560**		11
797	1,336	1,258	693	Appendix C, p. 20	12
634	438	215	453	Appendix C, p. 12	13
276	796	1,057	1,173	Appendix C, p. 4	14
683	475	181	241	Provincial Government	15
2,390	**3,045**	**2,711**	**2,560**		16

NEW BRUNSWICK

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	—	17	161	328
2	Provincial Share	—	4	49	406
3	Municipal Share	55	3	47	389
4	Sub-Total	*55*	*24*	*257*	*1,123*
	RELIEF WORKS—				
5	Dominion Share of Provincial Works	206	594	191	271
6	Dominion Share of Municipal Works	44	134	52	7
	Provincial Share of Provincial Works—				
7	Trans-Canada Highway	—	43	—	73
8	Other Provincial Works	—	925	—	292
9	Provincial Share of Municipal Works	—	449	—	14
10	Municipal Share of Municipal Works	—	397	—	115
11	Sub-Total	*250*	*2,542*	*243*	*772*
12	TOTAL	**305**	**2,566**	**500**	**1,895**
	SUMMARY				
13	Dominion Share, as reported by the Dominion	250	745	404	606
14	Provincial Share, Current Account	—	453	49	420
15	Provincial Share, Capital Account	—	968	—	365
16	Municipal Share	55	400	47	504
17	TOTAL, as above	**305**	**2,566**	**500**	**1,895**

(1) Dominion Share, on the basis of Dominion fiscal years, ended March 31st. Provincial and Municipal Shares, on the basis of fiscal years ended September 30th, years 1930-1934; and November 30th, years 1935-1937; year 1935 represents 14 month period.

NEW BRUNSWICK

TABLE 36

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
351	388	551	110	Appendix D, p. 24	1
218	309	498	186	Provincial Government	2
179	128	119	74	Provincial Government	3
748	*825*	*1,168*	*370*		4
87	733	396	403	Appendix D, p. 24	5
1	—	—	50	Appendix D, p. 24	6
72	810	633	413	Estimated	7
306	—	272	201	Estimated	8
15	8	—	18	Provincial Government	9
116	31	—	15	Provincial Government	10
597	*1,582*	*1,301*	*1,100*		11
1,345	**2,407**	**2,469**	**1,470**		12
439	1,121	947	563	Appendix D, p. 24	13
233	317	498	204	Provincial Government	14
378	810	905	614	Provincial Government	15
295	159	119	89	Provincial Government	16
1,345	**2,407**	**2,469**	**1,470**		17

QUEBEC

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	45	1,144	2,946	4,516
	Provincial Share—				
2	General Relief	312	2,654	3,972	7,228
3	Aid to Fishermen	26	12	11	28
4	Return to Land	—	—	20	63
5	Municipal Share	525	569	1,910	7,696
6	Sub-Total	*908*	*4,379*	*8,859*	*19,531*
	RELIEF WORKS—				
7	Dominion Share of Provincial Works	9	358	386	83
8	Dominion Share of Municipal Works	266	3,608	2,514	70
9	Provincial Share of Provincial Works	739	4,978	2,202	1,255
10	Provincial Share of Provincial Works to replace Direct Relief	—	—	—	—
11	Provincial Share of Municipal Works, grants under Road Acts, not included in Unemployed Aid Acts	—	1,340	771	—
12	Municipal Share of Municipal Works	—	2,509	3,539	1,167
13	Sub-Total	*1,014*	*12,793*	*9,412*	*2,575*
	AGRICULTURAL AID—				
14	Provincial Expenditures (Seed Grain)	109	80	567	132
15	TOTAL	**2,031**	**17,252**	**18,838**	**22,238**
	SUMMARY				
16	Dominion Share, as reported by the Dominion	320	5,110	5,846	4,669
	Provincial Share, Current Account—				
17	General Relief and Municipal Works	312	3,994	4,743	7,228
18	Aid to Fishermen	26	12	11	28
19	Return to Land	—	—	20	63
20	Agricultural Aid (Seed Grain)	109	80	567	132
21	Provincial Share, Capital Account	739	4,978	2,202	1,255
22	Municipal Share	525	3,078	5,449	8,863
23	TOTAL, as above	**2,031**	**17,252**	**18,838**	**22,238**

(1) Dominion share, on the basis of Dominion fiscal years, ended March 31st. Provincial share, on the basis of fiscal years ended June 30th.
(2) Gross; unallocated refunds 28.

QUEBEC

TABLE 37

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
10,928	7,714	8,708	5,294	Appendix E, p. 23	1
9,029	8,159	10,158	3,876	Appendix E, p. 13	2
20	43	65	40	Appendix E, p. 30	3
161	24	10	11	Appendix E, p. 36	4
9,041	7,900	9,829	7,829	Estimated, on basis of City of Montreal figures	5
29,179	*23,840*	*28,770*	*17,050*		6
286	3	1,653	2,675	Appendix E, p. 23	7
94	173	—	—	Appendix E, p. 23	8
1,156	1,340	4,188	1,386	Appendix E, p. 10	9
—	—	—	8,602	Appendix E, p. 13	10
966	1,000	120	543	Appendix E, p. 13	11
—	—	—	—	Estimated, on basis of City of Montreal figures	12
2,502	*2,516*	*5,961*	*13,206*		13
164	189	680	567	Appendix E, p. 34	14
31,845	**26,545**	**35,411**	**30,823**		15
11,308	7,890	10,361	(2)7,969	Appendix E, p. 23	16
9,995	9,159	10,278	13,021	Appendix E, p. 13	17
20	43	65	40	Appendix E, p. 30	18
161	24	10	11	Appendix E, p. 36	19
164	189	680	567	Appendix E, p. 34	20
1,156	1,340	4,188	1,386	Appendix E, p. 10	21
9,041	7,900	9,829	7,829	Estimated on basis of City of Montreal figures	22
31,845	**26,545**	**35,411**	**30,823**		23

ONTARIO

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	197	1,832	5,864	11,298
	Provincial Share—				
2	General Relief	24	790	3,950	11,084
3	Back to the Land Movement	—	—	6	63
4	Municipal Share	1,180	1,285	3,917	6,956
5	Sub-Total	*1,401*	*3,907*	*13,737*	*29,401*
	RELIEF WORKS—				
6	Dominion Share of Provincial Works	—	4,539	1,885	515
7	Dominion Share of Municipal Works	1,023	2,980	1,766	122
8	Provincial Share of Provincial Works	—	1,412	6,930	2,164
9	Provincial Share of Municipal Works	—	2,858	3,039	59
10	Municipal Share of Municipal Works	—	5,636	6,004	109
11	Sub-Total	*1,023*	*17,425*	*19,624*	*2,969*
	AGRICULTURAL AID—				
12	Provincial Expenditures (Seed Grain)	—	—	—	—
13	TOTAL	**2,424**	**21,332**	**33,361**	**32,370**
	SUMMARY				
14	Dominion Share, as reported by the Dominion	1,220	9,351	9,515	11,935
	Provincial Share, Current Account—				
15	General Relief and Municipal Works	24	3,648	6,989	11,143
16	Back to the Land Movement	—	—	6	63
17	Seed Grain	—	—	—	—
18	Provincial Share, Capital Account	—	1,412	6,930	2,164
19	Municipal Share	1,180	6,921	9,921	7,065
20	TOTAL, as above	**2,424**	**21,332**	**33,361**	**32,370**

(1) Dominion share, on the basis of Dominion fiscal years, ended March 31st. Provincial share, on the basis of fiscal years ended October 31st, years 1930-1934, inclusive, and March 31st, years 1935 to 1937; provincial figures do not include expenditures in 5 month period November 1, 1934 to March 31, 1935; Municipal share, direct relief, calendar year basis; relief works, provincial fiscal year basis.

(2) Gross; unallocated refunds 4.

TABLE 38

ONTARIO

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
12,575	9,052	9,909	6,137	Appendix F, p. 28	1
15,302	21,566	13,260	10,162	Appendix F, p. 13	2
72	24	8	—	Appendix F, p. 41	3
7,154	8,143	7,615	5,209	Provincial Government	4
35,103	*38,785*	*30,792*	*21,508*		5
2,072	6,156	5,210	1,231	Appendix F, p. 28	6
891	274	1	27	Appendix F, p. 28	7
19,190	8,831	2,457	5,252	Appendix F, p. 9	8
1,915	248	12	40	Appendix F, p. 13	9
1,481	185	7	100	Provincial Government	10
25,549	*15,694*	*7,687*	*6,650*		11
—	—	57	3	Appendix F, p. 37	12
60,652	**54,479**	**38,536**	**28,161**		13
15,538	15,482	15,120	(2)7,395	Appendix F, p. 28	14
17,217	21,814	13,272	10,202	Appendix F, p. 13	15
72	24	8	—	Appendix F, p. 41	16
—	—	57	3	Appendix F, p. 37	17
19,190	8,831	2,457	5,252	Appendix F, p. 9	18
8,635	8,328	7,622	5,309	Provincial Government	19
60,652	**54,479**	**38,536**	**28,161**		20

MANITOBA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	87	1,191	1,714	2,374
	Provincial Share—				
2	Expenditure charged to Current Account	289	962	1,673	2,456
3	Direct Charges to Deficit Account	—	—	40	40
4	Loans to Municipalities, partial or non-interest bearing	7	93	119	30
5	Municipal Share	530	1,108	1,531	1,929
6	Sub-Total	*913*	*3,354*	*5,077*	*6,769*
	RELIEF WORKS—				
7	Dominion Share of Provincial Works	62	768	272	87
8	Dominion Share of Municipal Works	134	1,370	842	4
	Provincial Share of Provincial Works—				
9	Expenditures Capitalized	117	803	443	13
10	Expenditures charged to current deficit	—	—	—	—
11	Provincial Share of Municipal Works	209	1,093	292	—
12	Municipal Share	208	1,193	408	—
13	Sub-Total	*730*	*5,227*	*2,257*	*104*
	AGRICULTURAL AID—				
14	Dominion Grant to Province	2	—	—	5
	Provincial Expenditure—				
15	Implementing guaranteed bank loans	—	—	—	—
16	Loans to municipalities, partial or non-interest bearing	—	1	—	122
17	Municipal bank loans guaranteed	—	—	46	64
18	Municipal Expenditures (not available)	—	—	—	—
19	Sub-Total	*2*	*1*	*46*	*191*
20	TOTAL	**1,645**	**8,582**	**7,380**	**7,064**
	SUMMARY				
21	Dominion Share	285	3,329	2,828	2,470
	Provincial Share—				
22	Expenditure charged to Current Account	498	2,055	1,965	2,456
23	Direct Charges to Deficit	—	—	40	40
	Expenditures charged to Capital Account—				
24	Provincial Works	117	803	443	13
25	Poor Loans	7	94	119	92
26	Implementing guaranteed bank loans	—	—	—	—
27	Municipal bank loans guaranteed	—	—	46	64
28	Municipal Share	738	2,301	1,939	1,929
29	TOTAL, as above	**1,645**	**8,582**	**7,380**	**7,064**

(1) Dominion share, on the basis of Dominion fiscal years, ended March 31st; province's share on the basis of fiscal years, ended April 30th; municipal share on the basis of fiscal years, ended March 31st.
(2) Gross, refunds unallocated 54.

MANITOBA

TABLE 39

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
2,095	2,229	2,968	2,486	Appendix G, p. 33	1
2,394	2,185	2,485	2,114	Appendix G, p. 15	2
—	—	—	—	Appendix G, p. 5 (included in deficit)	3
62	55	36	132	Appendix G, p. 11 (part of Item 6 (a))	4
2,151	2,279	2,108	2,050	Provincial Government (1937 estimated)	5
6,702	*6,748*	*7,597*	*6,782*		6
58	611	1,260	729	Appendix G, p. 33	7
—	472	631	214	Appendix G, p. 33	8
130	597	874	320	Appendix G, p. 11 (Item 4 (c))	9
—	—	—	411	Appendix G, p. 5 (included in deficit)	10
37	499	948	828	Appendix G, p. 15	11
—	645	494	407	Provincial Government (1937, Winnipeg alone, sewage disposal)	12
225	*2,824*	*4,207*	*2,909*		13
6	7	200	50	Appendix G, p. 33	14
85	32	4	55	Appendix G, p. 11 (part of Item 7)	15
541	148	4	7	Appendix G, p. 11 (balance of Item 6 (a))	16
72	62	183	?	Appendix G, p. 11 (part of Item 6 (b)), see also p. 32	17
—	—	—	—		18
560	*249*	*383*	*98*		19
7,487	**9,821**	**12,187**	**9,789**		20
2,159	3,319	5,059	(2) 3,479	Appendix G, p. 33	21
2,431	2,684	3,433	2,942	Appendix G, p. 15	22
—	—	—	411	Appendix G, p. 5 (included in deficit)	23
130	597	874	320	Appendix G, p. 11	24
603	203	32	125	Appendix G, p. 11, Item 6 (a)	25
85	32	4	55	Appendix G, p. 11, part of Item 7	26
72	62	183	?	Appendix G, p. 11, part of Item 6 (b)	27
2,151	2,924	2,602	2,457		28
7,487	**9,821**	**12,187**	**9,789**		29

SASKATCHEWAN

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	—	4,221	2,083	2,212
2	Dominion Grant (2)	—	—	—	—
3	Provincial Share	294	1,325	2,646	4,177
4	Municipal Share	300	12	47	741
5	Sub-Total	*594*	*5,558*	*4,776*	*7,130*
	RELIEF WORKS—				
6	Dominion Share of Provincial Works	536	1,232	512	11
7	Dominion Share of Municipal Works	—	896	841	141
	Provincial Share of Provincial Works—				
8	Capital Account	550	2,742	4	—
9	Current Account	368	2,910	74	18
10	Provincial Share of Municipal Works	243	466	468	213
11	Municipal Share of Municipal Works	98	145	61	1
12	Sub-Total	*1,795*	*8,391*	*1,960*	*384*
	AGRICULTURAL AID—				
13	Dominion Share	—	1,566	3,668	63
14	Provincial Share	728	7,875	2,842	1,810
15	Provincial Guarantee of Municipal Bank Loans	2,754	515	467	83
16	Municipal Expenditures	—	108	424	956
17	Sub-Total	*3,482*	*10,064*	*6,467*	*2,746*
18	TOTAL	**5,871**	**24,013**	**13,203**	**10,260**
	SUMMARY				
19	Dominion Share	536	7,915	7,104	2,427
	Provincial Share—				
20	Direct Relief	294	1,325	2,646	4,177
21	Provincial Works	918	5,652	78	18
22	Municipal Works	243	466	468	213
23	Agricultural Aid	3,482	8,390	2,375	1,727
24	Sub-Total—Provincial Share	*4,937*	*15,833*	*5,567*	*6,135*
25	Municipal Share	398	265	532	1,698
26	TOTAL, as above	**5,871**	**24,013**	**13,203**	**10,260**
	RECONCILIATION—PROVINCIAL SHARE—				
27	Provincial Share of Provincial Works, Capital Account	550	2,742	4	—
28	Poor Loans	2,754	540	457	52
29	Relief, Current Account	1,633	12,551	6,020	6,083
30	Less—Dominion Grant (Provincial fiscal year basis)	—	—	—	—
31	Not deducted from the above—	**4,937**	**15,833**	**5,567**	**6,135**
32	Provincial Relief Treasury Bills written off by the Dominion	—	5,339	643	2,239

(1) Dominion share on the basis of Dominion fiscal years, ended March 31st; Provincial and Municipal shares on the basis of fiscal years ended April 30th.

SASKATCHEWAN

TABLE 40

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
2,991	3,171	8,273	16,259	Appendix H, p. 27	1
4,998	4,000	—	—	Appendix H, p. 27	2
1,498	2,495	4,455	10,779	Provincial Government	3
68	86	500	500	Provincial Government	4
9,555	*9,752*	*13,228*	*27,538*		5
2	10	624	559	Appendix H, p. 27	6
35	—	—	—	Appendix H, p. 27	7
—	619	10	—	Appendix H, p. 11, Item 4 (d)	8
806	—	723	792	Provincial Government	9
—	—	—	—	Provincial Government	10
1	—	2	?	Provincial Government	11
844	*629*	*1,339*	*1,351*		12
—	—	2,400	10,692	Appendix H, p. 27	13
10,589	6,093	2,206	6,208		14
27	930	3,500	16,523	Appendix H, p. 26 (included in "C")	15
118	1,209	6	?	Provincial Government	16
10,680	*8,232*	*8,112*	*33,423*		17
21,079	**18,613**	**22,679**	**62,312**		18
8,026	7,181	11,297	(3)27,510	Appendix H, p. 27	19
1,498	2,495	4,455	10,779		20
806	619	713	792		21
—	—	—	—		22
10,562	7,023	5,706	22,731		23
12,866	*10,137*	*10,874*	*34,302*	Appendix H (see Reconciliation below)	24
187	1,295	508	500	Provincial Government	25
21,079	**18,613**	**22,679**	**62,312**		26
—	619	10	—	Appendix H, p. 11, Item 4 (d)	27
230	1,200	3,445	24,056	Appendix H, p. 11, Item 6 (a)	28
18,634	11,318	7,439	10,246	Appendix H, p. 14, Item 5 (a)	29
5,998	3,000	—	—	Appendix H, p. 5	30
12,866	**10,137**	**10,874**	**34,302**		31
8,166	746	549	—		32

(2) Division between Direct Relief and Agricultural Relief not available.
(3) Gross; refunds unallocated, 915.

ALBERTA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	12	622	1,415	1,411
	Provincial Share—				
2	Expenditure charged to Current Account	292	638	1,029	1,598
3	Poor Loans and Other Expenses Capitalized	81	155	195	185
4	Municipal Share	300	607	869	1,102
5	Sub-Total	*685*	*2,022*	*3,508*	*4,296*
	RELIEF WORKS—				
6	Dominion Share of Provincial Works	79	1,079	534	28
7	Dominion Share of Municipal Works	96	865	638	13
8	Provincial Share of Provincial Works	660	1,043	608	32
9	Provincial Share of Municipal Works	345	588	245	11
10	Municipal Share of Municipal Works	500	708	151	10
11	Sub-Total	*1,680*	*4,283*	*2,176*	*94*
	AGRICULTURAL AID—				
12	Dominion Grant to Province	—	—	18	—
	Provincial Expenditures—				
13	Current Account	60	158	51	134
	Poor Loans Capitalized—				
14	Seed Grain and Fodder, binder twine, tractor fuel and lubricating oils	—	218	190	327
	Other Expenditure Capitalized—				
15	Movement of Settlers, etc	—	6	21	—
16	Municipal Expenditures	—	—	6	45
17	Sub-Total	*60*	*382*	*184*	*506*
18	TOTAL	**2,425**	**6,687**	**5,868**	**4,896**
	SUMMARY				
19	Dominion Share	187	2,566	2,605	1,452
	Provincial Share—				
20	Direct Relief and Municipal Works	637	1,226	1,274	1,609
21	Agricultural Expenditures, Current Account	60	158	51	134
22	Provincial Works, Capital Account	660	1,043	608	32
23	Poor Loans and Other Expenditures Capitalized	81	379	406	512
24	Municipal Share	800	1,315	1,026	1,157
25	TOTAL, as above	**2,425**	**6,687**	**5,868**	**4,896**

(1) Dominion share on the basis of Dominion fiscal years, ended March 31st; provincial and municipal shares on basis of provincial fiscal years.
(2) Does not include 52, Calgary-Waterton Lakes Highway.
(3) Includes 97 foodstuffs, and 57 processing cattle dry areas.
(4) Gross; refunds unallocated, 178.

ALBERTA

TABLE 41

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
1,577	1,688	2,282	2,580	Appendix J, p. 26	1
1,445	1,806	2,614	1,929	Appendix J, p. 13 (less refunds 95)	2
349	480	46	10	Appendix J, p. 10, part of Items 7 and 8	3
1,106	1,375	1,358	995	Provincial Government	4
4,477	*5,349*	*6,208*	*5,514*		5
60	117	350	(2)250	Appendix J, p. 26	6
5	—	—	70	Appendix J, p. 26	7
293	277	684	460	Appendix J, p. 10, Item 4 (d)	8
340	—	—	—		9
—	—	—	97	Provincial Government	10
698	*394*	*1,034*	*877*		11
3	—	1,007	(3)764	Appendix J, p. 26	12
7	—	78	145	Appendix J, p. 38	13
507	1,054	646	349	Appendix J, p. 10, part of Item 7	14
262	224	194	—	Appendix J, p. 10, part of Item 8	15
43	18	10	?	Provincial Government	16
822	*1,296*	*1,935*	*1,258*		17
5,997	**7,039**	**9,177**	**7,649**		18
1,645	1,805	3,639	(4)3,664	Appendix J, p. 26	19
1,785	1,806	2,614	1,929	Appendix J, p. 13	20
7	—	78	145	Appendix J, p. 38	21
293	277	684	460	Appendix J, p. 10, Item 4 (d)	22
1,118	1,758	794	359	Appendix J, p. 10, part of Items 7 and 8	23
1,149	1,393	1,368	1,092	Provincial Government	24
5,997	**7,039**	**9,177**	**7,649**		25

BRITISH COLUMBIA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31 (1)			
		1930	1931	1932	1933
	DIRECT AND MISCELLANEOUS RELIEF—				
1	Dominion Share	34	790	2,964	3,371
	Provincial Share—				
2	Current Account	255	1,134	3,484	3,624
	Capital Account—				
3	Forest Development	—	—	—	—
4	Assistance to Settlers	—	—	—	—
5	Municipal Share	260	311	1,055	1,072
6	Sub-Total	*549*	*2,235*	*7,503*	*8,067*
	RELIEF WORKS—				
7	Dominion Share of Provincial Works	140	1,438	504	4
8	Dominion Share of Municipal Works	85	1,200	610	—
	Provincial Share of Provincial Works—				
9	Expenditures from Capital Account	—	1,600	55	—
10	Expenditures from Current Account	371	172	—	—
11	Provincial Share of Municipal Works	366	621	75	2
12	Municipal Share of Municipal Works	733	1,141	141	2
13	Sub-Total	*1,695*	*6,172*	*1,385*	—
14	TOTAL	**2,244**	**8,407**	**8,888**	**8,067**
	SUMMARY				
15	Dominion Share	259	3,428	4,078	3,367
	Provincial Share—				
16	Current Account	992	1,927	3,559	3,626
17	Capital Account—Provincial Works	—	1,600	55	—
18	Municipal Share	993	1,452	1,196	1,074
19	TOTAL, as above	**2,244**	**8,407**	**8,888**	**8,067**

(1) Dominion share on the basis of Dominion fiscal years, ended March 31st. Provincial and Municipal shares, on the basis of fiscal years ended March 31st.

(2) Gross; refunds unallocated. 4

TABLE 42

BRITISH COLUMBIA

RELIEF EXPENDITURES

THROUGH PROVINCIAL-MUNICIPAL AGENCIES

Thousands of Dollars

For the fiscal years ended nearest to December 31 (1)				Source	Item No.
1934	1935	1936	1937		
3,170	2,248	2,881	2,145	Appendix K, p. 28	1
4,604	5,066	4,396	3,821	Appendix K, p. 15	2
—	—	—	418	Appendix K, p. 12	3
—	—	—	13	Appendix K, p. 12	4
1,266	1,290	751	749	Provincial Government	5
9,040	*8,604*	*8,028*	*7,146*		6
—	1	644	952	Appendix K, p. 28	7
4	25	20	—	Appendix K, p. 28	8
863	2,509	1,250	904	Appendix K, p. 12	9
—	—	—	—	Appendix K, p. 15	10
2	—	—	—	Appendix K, p. 15	11
2	185	98	(?) 11	Provincial Government	12
871	*2,720*	*2,012*	*1,867*		13
9,911	**11,324**	**10,040**	**9,013**		14
3,174	2,274	3,545	(2)3,097	Appendix K, p. 28	15
4,606	5,066	4,396	3,821	Appendix K, p. 15	16
863	2,509	1,250	1,335	Appendix K, p. 12	17
1,268	1,475	849	760		18
9,911	**11,324**	**10,040**	**9,013**		19

PROVINCES AND MUNICIPALITIES

TABLE 43

PUBLIC WELFARE EXPENDITURES[1]

(Including relief for unemployables)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31						
		1926	1930	1933	1936	1937	1938	1939
	PRINCE EDWARD ISLAND—							
1	Provincial, less refunds	113	141	178	269	303	339	333
2	Less relief for employables	—	—	—	14	21	50	[2]50
3	Sub-Total	*113*	*141*	*178*	*255*	*282*	*289*	*283*
4	Municipal	10	15	40	47	50	50	50
5	Less relief for employables	—	5	14	20	30	30	30
6	Sub-Total	*10*	*10*	*26*	*27*	*20*	*20*	*20*
7	TOTAL—Prince Edward Island	**123**	**151**	**204**	**282**	**302**	**309**	**303**
	NOVA SCOTIA—							
8	Provincial, less refunds	425	547	1,681	[3]1,842	2,210	2,357	2,285
9	Less relief for employables	—	—	472	—	236	302	191
10	Sub-Total	*425*	*547*	*1,209*	*1,842*	*1,974*	*2,055*	*2,094*
11	Municipal	973	1,238	1,851	1,679	1,829	1,829	1,829
12	Less relief for employables	—	70	652	178	172	172	172
13	Sub-Total	*973*	*1,168*	*1,199*	*1,501*	*1,657*	*1,657*	*1,657*
14	TOTAL—Nova Scotia	**1,398**	**1,715**	**2,408**	**3,343**	**3,631**	**3,712**	**3,751**
	NEW BRUNSWICK—							
15	Provincial, less refunds	270	440	[3]795	[3]1,156	[3]1,241	1,415	1,281
16	Less relief for employables	—	—	252	324	28	149	[2]70
17	Sub-Total	*270*	*440*	*543*	*832*	*1,213*	*1,266*	*1,211*
18	Municipal	830	725	1,175	1,133	997	997	997
19	Less relief for employables	—	55	389	119	74	74	74
20	Sub-Total	*830*	*670*	*786*	*1,014*	*923*	*923*	*923*
21	TOTAL—New Brunswick	**1,100**	**1,110**	**1,329**	**1,846**	**2,136**	**2,189**	**2,134**
	QUEBEC—							
22	Provincial, less refunds	2,362	5,522	13,774	20,224	24,145	18,238	17,737
23	Less relief for employables	—	312	5,743	8,730	11,454	4,333	4,466
24	Sub-Total	*2,362*	*5,210*	*8,031*	*11,494*	*12,691*	*13,905*	*13,271*
25	Municipal	4,200	6,050	13,120	15,580	14,700	14,700	14,700
26	Less relief for employables	—	525	7,696	9,829	7,829	7,829	7,829
27	Sub-Total	*4,200*	*5,525*	*5,424*	*5,751*	*6,871*	*6,871*	*6,871*
28	TOTAL—Quebec	**6,562**	**10,735**	**13,455**	**17,245**	**19,562**	**20,776**	**20,142**

(1) For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

(2) Not included in budget; estimated.

(3) Includes special adjustment in respect of expenditures charged to capital account for unemployables:—Nova Scotia—1936, 45; New Brunswick—1933, 55; 1936, 232; 1937, 19.

PROVINCES AND MUNICIPALITIES

TABLE 43

(*Continued*)

PUBLIC WELFARE EXPENDITURES[1]

(Including relief for unemployables)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31						
		1926	1930	1933	1936	1937	1938	1939
	ONTARIO—							
1	Provincial, less refunds	6,059	10,581	21,116	25,002	27,097	29,112	29,914
2	Less relief for employables	28	24	9,361	11,427	8,347	7,935	7,945
3	Sub-Total	*6,031*	*10,557*	*11,755*	*13,575*	*18,750*	*21,177*	*21,969*
4	Municipal	9,313	14,840	20,346	24,333	20,337	20,337	20,337
5	Less relief for employables	—	1,180	6,956	7,615	5,209	5,209	5,209
6	Sub-Total	*9,313*	*13,660*	*13,390*	*16,718*	*15,128*	*15,128*	*15,128*
7	TOTAL—Ontario	**15,344**	**24,217**	**25,145**	**30,293**	**33,878**	**36,305**	**37,097**
	MANITOBA—							
8	Provincial, less refunds	2,133	3,966	5,112	6,459	6,137	5,657	6,506
9	Less relief for employables	10	498	2,101	3,078	2,584	1,943	[2]2,640
10	Sub-Total	*2,123*	*3,468*	*3,011*	*3,381*	*3,553*	*3,714*	*3,866*
11	Municipal	1,525	2,400	3,788	4,250	4,210	4,210	4,210
12	Less relief for employables	—	530	1,929	2,108	2,050	2,050	2,050
13	Sub-Total	*1,525*	*1,870*	*1,859*	*2,142*	*2,160*	*2,160*	*2,160*
14	TOTAL—Manitoba	**3,648**	**5,338**	**4,870**	**5,523**	**5,713**	**5,874**	**6,026**
	SASKATCHEWAN—							
15	Provincial, less refunds	1,768	5,023	8,757	10,769	13,859	14,512	9,707
16	Less relief for employables	31	1,633	5,617	6,973	9,776	10,302	[2]5,573
17	Sub-Total	*1,737*	*3,390*	*3,140*	*3,796*	*4,083*	*4,210*	*4,134*
18	Municipal	1,507	2,703	3,048	3,353	3,633	3,633	3,633
19	Less relief for employables	—	300	600	500	500	500	500
20	Sub-Total	*1,507*	*2,403*	*2,448*	*2,853*	*3,133*	*3,133*	*3,133*
21	TOTAL—Saskatchewan	**3,244**	**5,793**	**5,588**	**6,649**	**7,216**	**7,343**	**7,267**
	ALBERTA—							
22	Provincial, less refunds	1,447	3,113	3,883	5,471	5,049	4,286	5,082
23	Less relief for employables	21	637	1,235	2,229	1,540	832	1,064
24	Sub-Total	*1,426*	*2,476*	*2,648*	*3,242*	*3,509*	*3,454*	*4,018*
25	Municipal	1,154	1,612	2,596	3,205	3,548	3,548	3,548
26	Less relief for employables	—	300	1,102	1,358	995	995	995
27	Sub-Total	*1,154*	*1,312*	*1,494*	*1,847*	*2,553*	*2,553*	*2,553*
28	TOTAL—Alberta	**2,580**	**3,788**	**4,142**	**5,089**	**6,062**	**6,007**	**6,571**

[1] For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

[2] Not included in budget; estimated.

PROVINCES AND MUNICIPALITIES

TABLE 43

(*Concluded*)

PUBLIC WELFARE EXPENDITURES[1]

(Including relief for unemployables)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31						
		1926	1930	1933	1936	1937	1938	1939
	BRITISH COLUMBIA—							
1	Provincial, less refunds	3,048	5,463	6,534	8,642	8,512	9,315	9,437
2	Less relief for employables	—	992	3,234	3,983	3,408	3,270	[2]3,376
3	Sub-Total	*3,048*	*4,471*	*3,300*	*4,659*	*5,104*	*6,045*	*6,061*
4	Municipal	1,174	1,927	3,388	4,295	3,919	3,919	3,919
5	Less relief for employables	—	260	1,072	751	749	749	749
6	Sub-Total	*1,174*	*1,667*	*2,316*	*3,544*	*3,170*	*3,170*	*3,170*
7	TOTAL—British Columbia	**4,222**	**6,138**	**5,616**	**8,203**	**8,274**	**9,215**	**9,231**
	ALL PROVINCES—							
8	Provincial, less refunds	17,625	34,796	61,830	79,834	88,553	85,231	82,282
9	Less relief for employables	90	4,096	28,015	36,758	37,394	29,116	25,375
10	Sub-Total	*17,535*	*30,700*	*33,815*	*43,076*	*51,159*	*56,115*	*56,907*
11	Municipal	20,686	31,510	49,352	57,875	53,223	53,223	53,223
12	Less relief for employables	—	3,225	20,410	22,478	17,608	17,608	17,608
13	Sub-Total	*20,686*	*28,285*	*28,942*	*35,397*	*35,615*	*35,615*	*35,615*
14	TOTAL—ALL PROVINCES	**38,221**	**58,985**	**62,757**	**78,473**	**86,774**	**91,730**	**92,522**

(1) For the years 1938 and 1939 Provincial figures are based on actual expenditure, where available, or provincial budget estimates. In these years the municipal figures are assumed to be the same as for the year 1937.

(2) Not included in budget; estimated.

PROVINCES AND MUNICIPALITIES

TABLE 44

EDUCATION EXPENDITURES

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31						
		1926	1930	1933	1936	1937	1938	1939
1	PRINCE EDWARD ISLAND—Provincial..	276	298	322	337	350	362	367
2	Municipal..	172	190	192	194	199	199	199
3	Sub-Total.....	*448*	*488*	*514*	*531*	*549*	*561*	*566*
4	NOVA SCOTIA—Provincial.....	636	924	1,076	1,210	1,282	1,307	1,396
5	Municipal.....	3,040	2,862	2,874	2,885	2,934	2,934	2,934
6	Sub-Total.....	*3,676*	*3,786*	*3,950*	*4,095*	*4,216*	*4,241*	*4,330*
7	NEW BRUNSWICK—Provincial.....	540	693	598	697	731	787	816
8	Municipal.....	2,160	2,130	2,021	1,913	1,944	1,944	1,944
9	Sub-Total.....	*2,700*	*2,823*	*2,619*	*2,610*	*2,675*	*2,731*	*2,760*
10	QUEBEC—Provincial.....	3,248	4,965	5,742	4,602	6,185	6,281	5,452
11	Municipal.....	15,127	15,236	16,824	15,628	16,516	16,516	16,516
12	Sub-Total.....	*18,375*	*20,201*	*22,566*	*20,230*	*22,701*	*22,797*	*21,968*
13	ONTARIO—Provincial.....	9,873	12,895	11,281	10,564	11,833	13,051	13,483
14	Municipal.....	32,501	34,601	33,200	31,798	32,743	32,743	32,743
15	Sub-Total.....	*42,374*	*47,496*	*44,481*	*42,362*	*44,576*	*45,794*	*46,226*
16	MANITOBA—Provincial.....	1,891	2,199	1,696	1,552	1,671	1,841	1,947
17	Municipal.....	6,424	6,624	5,873	5,122	5,236	5,236	5,236
18	Sub-Total.....	*8,315*	*8,823*	*7,569*	*6,674*	*6,907*	*7,077*	*7,183*
19	SASKATCHEWAN—Provincial.....	3,289	4,252	2,359	2,830	3,159	3,855	3,867
20	Municipal.....	9,451	9,110	7,470	5,830	5,032	5,032	5,032
21	Sub-Total.....	*12,740*	*13,362*	*9,829*	*8,660*	*8,191*	*8,887*	*8,899*
22	ALBERTA—Provincial.....	2,118	3,170	2,438	2,569	2,637	2,803	2,901
23	Municipal.....	7,203	8,545	7,642	6,738	6,810	6,810	6,810
24	Sub-Total.....	*9,321*	*11,715*	*10,080*	*9,307*	*9,447*	*9,613*	*9,711*
25	BRITISH COLUMBIA—Provincial.....	3,819	4,379	3,236	3,977	4,273	4,403	4,355
26	Municipal.....	4,204	5,407	5,021	4,634	5,092	5,092	5,092
27	Sub-Total.....	*8,023*	*9,786*	*8,257*	*8,611*	*9,365*	*9,495*	*9,447*
28	ALL PROVINCES—Provincial.....	25,690	33,775	28,748	28,338	32,121	34,690	34,584
29	Municipal.....	80,282	84,705	81,117	74,742	76,506	76,506	76,506
30	TOTAL.....	**105,972**	**118,480**	**109,865**	**103,080**	**108,627**	**111,196**	**111,090**

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES — TABLE 45

DEBT CHARGES

GROSS AND NET, EXCLUDING SINKING FUNDS

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1913	1921	1926	1930	1933	1937
	DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES—						
1	Interest Paid, gross	28,613	200,420	218,621	232,525	281,113	(1)263,618
2	Interest Received (2)	13,532	34,889	72,625	55,743	43,019	47,092
3	Interest Paid, net	**15,081**	**165,531**	**145,996**	**176,782**	**238,094**	**(1)216,526**
	ELIMINATION OF INTER-GOVERNMENTAL INTEREST—						
4	From Interest Paid	450	2,372	2,947	2,409	4,517	5,321
5	From Interest Received	1,014	1,031	1,232	617	2,732	3,893
	DOMINION AND CANADIAN NATIONAL RAILWAYS—						
6	Interest Paid, gross	17,532	174,505	173,533	176,896	205,546	188,828
7	Interest Received	5,319	22,017	50,770	27,798	15,850	21,785
8	Interest Paid, net	**12,213**	**152,488**	**122,763**	**149,098**	**189,696**	**167,043**
	PROVINCES—						
9	Interest Paid, gross	11,531	28,287	48,035	58,038	80,084	(1)80,111
10	Interest Received (2)	9,227	13,903	23,087	28,562	29,901	29,200
11	Interest Paid, net	**2,304**	**14,384**	**24,948**	**29,476**	**50,183**	**(1)50,911**

NET DEBT CHARGES, AS A PERCENTAGE OF CURRENT REVENUE (2)

		%	%	%	%	%	%
12	DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES	9·04	40·41	30·42	37·47	57·44	31·56
13	DOMINION OF CANADA AND CANADIAN NATIONAL RAILWAYS	9·03	45·86	34·07	47·48	67·42	35·98
14	PROVINCES	5·13	15·91	18·65	16·96	33·39	20·82

(1) Excludes unpaid interest, Province of Alberta, estimated at 3,400.
(2) After adjustment of refunds.

PROVINCIAL GOVERNMENTS

TABLE 46

DEBT CHARGES

GROSS AND NET, EXCLUDING SINKING FUNDS

Thousands of Dollars

Item No.	——	For the fiscal years ended nearest to December 31					
		1913	1921	1926	1930	1933	1937
1	ALL PROVINCES—Interest Paid, gross	11,531	28,287	48,035	58,038	80,084	(1)80,111
2	Interest Received	9,227	13,903	23,087	28,562	29,901	29,200
3	Interest Paid, net	2,304	14,384	24,948	29,476	50,183	(1)50,911
4	PRINCE EDWARD ISLAND—Interest Paid, gross	42	61	114	148	214	296
5	Interest Received	5	10	19	24	35	75
6	Interest Paid, net	*37*	*51*	*95*	*124*	*179*	*221*
7	NOVA SCOTIA—Interest Paid, gross	456	862	1,871	2,672	3,318	3,828
8	Interest Received	138	210	601	1,073	1,117	1,212
9	Interest Paid, net	*318*	*652*	*1,270*	*1,599*	*2,201*	*2,616*
10	NEW BRUNSWICK—Interest Paid, gross	447	1,251	1,913	2,600	3,473	3,624
11	Interest Received	190	194	402	588	705	840
12	Interest Paid, net	*257*	*1,057*	*1,511*	*2,012*	*2,768*	*2,784*
13	QUEBEC—Interest Paid, gross	1,214	2,997	4,886	4,336	7,223	8,890
14	Interest Received, including refunds	248	762	2,106	2,261	2,271	2,022
15	Interest Paid, net	*966*	*2,235*	*2,780*	*2,075*	*4,952*	*6,868*
16	ONTARIO—Interest Paid, gross	1,722	8,593	20,369	25,119	34,145	33,230
17	Interest Received	1,844	6,462	13,087	15,460	16,064	14,691
18	Interest Paid, net	*122*	*2,131*	*7,282*	*9,659*	*18,081*	*18,539*
19	MANITOBA—Interest Paid, gross	1,731	3,418	4,488	5,020	6,901	6,060
20	Interest Received	1,127	2,201	2,659	3,238	2,463	2,359
21	Interest Paid, net	*604*	*1,217*	*1,829*	*1,782*	*4,438*	*3,701*
22	SASKATCHEWAN—Interest Paid, gross	1,539	2,691	2,982	4,500	7,451	10,222
23	Interest Received	1,057	1,448	1,193	1,658	2,494	4,139
24	Interest Paid, net	*482*	*1,243*	*1,789*	*2,842*	*4,957*	*6,083*
25	ALBERTA—Interest Paid, gross	2,326	4,005	6,498	7,185	9,027	(1)5,300
26	Interest Received, including refunds	2,715	1,405	1,895	2,853	3,000	1,741
27	Interest Paid, net	*389*	*2,600*	*4,603*	*4,332*	*6,027*	(1)*3,559*
28	BRITISH COLUMBIA—Interest Paid, gross	2,054	4,409	4,914	6,458	8,332	8,661
29	Interest Received	1,903	1,211	1,125	1,407	1,752	2,121
30	Interest Paid, net	*151*	*3,198*	*3,789*	*5,051*	*6,580*	*6,540*

(1) Excluding unpaid interest, Province of Alberta, estimated at 3,400.

TABLE 47

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

GROSS BONDED DEBT — DIRECT, GUARANTEED AND UNGUARANTEED [1]

ANALYSIS BY CURRENCIES OF PAYMENT

Thousands of Dollars

Item No.	—	As at fiscal year ends nearest to December 31					1937 (August 31)
		1913	1921	1926	1930	1933	
1	CANADA	35,715	2,089,882	2,213,982	2,031,386	2,580,656	3,404,988
2	NEW YORK	2,049	272,584	398,951	454,186	467,855	504,877
3	CANADA OR NEW YORK	4,100	343,269	489,851	659,798	656,871	467,348
4	CANADA, NEW YORK OR LONDON	209,310	186,681	217,462	705,308	801,807	750,430
5	CANADA OR LONDON	107,984	102,075	121,791	81,634	82,051	79,141
6	LONDON	720,771	853,000	837,337	805,872	888,774	872,989
7	LONDON OR NEW YORK	—	—	10,964	10,964	10,964	10,964
8	LONDON OR PARIS	9,391	8,345	8,345	4,736	4,736	4,736
9	TOTAL	1,089,320	3,855,836	4,298,683	4,753,884	5,493,714	6,095,473

[1] Does not include Treasury Bills.

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

TABLE 48

DIRECT AND GUARANTEED BONDS

AVERAGE COUPON RATES

Item No.	——	As at fiscal year ends nearest to December 31					1937 (Aug. 31)
		1913	1921	1926	1930	1933	
		%	%	%	%	%	%
1	DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES	3·88	5·03	4·90	4·82	4·61	3·97
2	DOMINION OF CANADA	3·47	5·07	4·94	4·86	4·56	3·84
	CANADIAN NATIONAL RAILWAYS—						
3	Unguaranteed (1)	4·27	4·61	4·51	4·42	4·37	3·91
4	Guaranteed by Provinces	4·05	4·13	4·05	4·07	4·07	4·08
5	PRINCE EDWARD ISLAND	3·95	4·48	4·63	4·70	5·04	4·21
6	NOVA SCOTIA	3·63	4·76	4·65	4·71	4·63	4·00
7	NEW BRUNSWICK	3·86	4·93	4·95	4·83	4·88	4·39
8	QUEBEC	3·55	4·54	4·33	4·28	4·32	3·24
9	ONTARIO	3·76	5·41	5·24	4·96	4·86	4·32
10	MANITOBA	4·06	5·24	4·93	4·70	4·88	4·80
11	SASKATCHEWAN	4·07	5·17	4·99	4·78	4·90	4·77
12	ALBERTA (2)	4·34	5·13	5·17	5·04	4·96	4·94
13	BRITISH COLUMBIA	4·03	4·89	4·61	4·62	4·69	4·62

(1) Issues guaranteed by the Dominion included with Item No. 2.
(2) At original coupon rates.

TABLE 49

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

DIRECT, GUARANTEED AND UNGUARANTEED BONDS, AS AT AUGUST 31, 1937

ANALYSIS BY MATURITIES AND COUPON RATES

Thousands of Dollars

Coupon Rates %	Amount Outstanding	MATURITIES					Other Maturities	Perpetuals
		1937-40	1941-45	1946-50	1951-60	1961-80		
1	77,000	32,000	45,000	—	—	—	—	—
1¼	12,000	12,000	—	—	—	—	—	—
1⅓	80,000	80,000	—	—	—	—	—	—
1¾	2,000	2,000	—	—	—	—	—	—
2	358,883	200,600	135,000	—	—	—	(1)23,283	—
Cumulative Total...	*529,883*	*326,600*	*180,000*	—	—	—	*23,283*	—
2⅛	2,000	2,000	—	—	—	—	—	—
2¼	62,500	17,000	45,500	—	—	—	—	—
2½	213,790	38,364	165,678	9,748	—	—	—	—
2¾	12,000	5,000	5,000	2,000	—	—	—	—
3	658,670	182,048	88,662	33,016	208,152	91,792	—	55,000
Cumulative Total...	*1,478,843*	*571,012*	*484,840*	*44,764*	*208,152*	*91,792*	*23,283*	*55,000*
3¼	208,549	—	8,100	44,500	53,246	102,703	—	—
3½	391,521	29,903	16,960	290,199	19,791	34,658	(2)10	—
3¾	165	155	10	—	—	—	—	—
4	1,018,287	127,539	103,768	65,528	439,431	36,523	(3)156	245,342
Cumulative Total...	*3,097,365*	*728,609*	*613,678*	*444,991*	*720,620*	*265,676*	*23,449*	*300,342*
4¼	18,250	—	—	—	10,750	7,500	—	—
4½	1,488,251	112,502	166,681	133,279	1,010,883	63,256	(4)1,650	—
4¾	98,836	1,100	22,600	1,340	60,535	13,261	—	—
5	1,022,923	36,457	367,419	62,096	329,627	193,275	(2)14	34,035
Cumulative Total...	*5,725,625*	*878,668*	*1,170,378*	*641,706*	*2,132,415*	*542,968*	*25,113*	*334,377*
5¼	131	28	—	100	3	—	—	—
5½	233,485	130,760	23,512	56,894	21,809	510	—	—
6	107,551	9,010	55,604	22,923	15,066	906	(4)3,955 (2)16	71
6½	24,469	162	58	24,245	4	—	—	—
Cumulative Total...	*6,091,261*	*1,018,628*	*1,249,552*	*745,868*	*2,169,297*	*544,384*	*29,084*	*334,448*
Various.....	4,212	296	184	3,645	—	—	87	—
TOTAL.....	6,095,473	1,018,924	1,249,736	749,513	2,169,297	544,384	29,171	334,448

(1) By drawings.
(2) Demand.
(3) Optional.
(4) Past due.

TABLE 50

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

DIRECT, GUARANTEED AND UNGUARANTEED BONDS

AS AT AUGUST 31, 1937

ANALYSIS BY MATURITIES AND CURRENCIES OF PAYMENT

Thousands of Dollars

Payable in	Amount Outstanding	MATURITIES						Perpetuals
		1937-40	1941-45	1946-50	1951-60	1961-80	Various(1)	
CANADA	3,404,992	831,154	931,593	437,027	1,058,919	87,148	4,151	55,000
NEW YORK	504,877	53,591	119,865	28,021	200,000	103,400	—	—
CANADA OR NEW YORK	467,346	23,459	82,203	57,294	268,693	34,047	1,650	—
CANADA, NEW YORK OR LONDON	750,430	29,030	54,294	29,262	373,733	264,111	—	—
CANADA OR LONDON	79,141	2,000	36,635	22,211	14,856	3,439	—	—
LONDON	872,987	79,690	25,146	164,734	248,360	52,239	23,370	279,448
LONDON OR PARIS	4,736	—	—	—	4,736	—	—	—
LONDON OR NEW YORK	10,964	—	—	10,964	—	—	—	—
TOTAL	**6,095,473**	**1,018,924**	**1,249,736**	**749,513**	**2,169,297**	**544,384**	(1)**29,171**	**334,448**

(1) Past due 5,605; demand 40; by drawings 23,370; and optional 156.

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

Item No.		Dominion of Canada, C.N.R. and Provinces	Eliminations	Dominion of Canada, and C.N.R.	Provinces
		1913 (1)			
1	ACTIVE OR SELF-SUPPORTING ASSETS	**288,486**	715	131,933	157,268
2	Percentage of total debt	36·3%	—	25·3%	55·2%
3	PUBLIC WORKS	**222,129**	—	164,935	57,194
4	Percentage of total debt	28·0%	—	31·7%	20·1%
5	OTHER ASSETS AND EXPENDITURES	**502,250**	555	444,944	56,751
6	Percentage of total debt	63·2%	—	85·4%	19·9%
7	DEFICIT ACCOUNTS	**218,596**	21,000	211,351	13,755
8	Percentage of total debt	27·5%	—	40·6%	4·8%
9	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
10	Percentage of total debt	—	—	1·8%	—
11	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**794,269**	11,536	**520,837**	**284,968**
		1921 (1)			
12	ACTIVE OR SELF-SUPPORTING ASSETS	**486,184**	21,109	211,833	295,460
13	Percentage of total debt	11·8%	—	6·0%	46·7%
14	PUBLIC WORKS	**485,067**	—	258,363	226,704
15	Percentage of total debt	11·8%	—	7·3%	35·8%
16	OTHER ASSETS AND EXPENDITURES	**2,104,293**	3,540	1,976,830	131,003
17	Percentage of total debt	51·3%	—	56·2%	20·6%
18	DEFICIT ACCOUNTS	**1,028,145**	34,667	1,082,637	19,825
19	Percentage of total debt	25·1%	—	30·8%	3·1%
20	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
21	Percentage of total debt	—	—	0·3%	—
22	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**4,103,689**	49,692	**3,520,039**	**633,342**

(1) As at the fiscal years ends nearest to December 31st.

TABLE 51

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

ANALYSIS BY PROVINCES									Item No.
Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskat-chewan	Alberta	British Columbia	
1913 (1)									
—	4,729	1,775	6,938	25,294	36,743	27,548	26,481	27,760	1
—	40·5%	15·5%	21·8%	60·9%	80·6%	70·3%	50·9%	54·8%	2
960	5,893	3,477	14,320	—	9,244	11,871	9,314	2,115	3
99·8%	50·5%	30·3%	44·9%	—	20·3%	30·3%	17·9%	4·2%	4
2	4	6,234	372	13,843	4,393	780	16,036	15,087	5
0·2%	—	54·3%	1·2%	33·3%	9·6%	2·0%	30·8%	29·8%	6
—	1,055	14	10,218	2,399	4,801	1,005	220	5,683	7
—	9·0%	0·1%	32·1%	5·8%	10·5%	2·6%	0·4%	11·2%	8
—	—	—	—	—	—	—	—	—	9
—	—	—	—	—	—	—	—	—	10
962	**11,681**	**11,472**	**31,848**	**41,536**	**45,579**	**39,194**	**52,051**	**50,645**	11
1921 (1)									
5	7,139	4,738	16,711	153,712	43,573	27,105	26,396	16,081	12
0·4%	32·7%	16·6%	27·2%	70·2%	60·4%	51·1%	27·5%	20·0%	13
1,234	13,662	11,234	41,944	51,987	27,435	24,643	30,232	24,333	14
99·5%	62·6%	39·2%	68·4%	23·7%	38·0%	46·4%	31·6%	30·3%	15
1	8	11,293	3,361	25,162	4,548	5,040	36,970	44,620	16
0·1%	—	39·5%	5·5%	11·5%	6·3%	9·5%	38·6%	55·6%	17
—	1,019	1,339	690	11,907	3,377	3,694	2,246	4,761	18
—	4·7%	4·7%	1·1%	5·4%	4·7%	7·0%	2·3%	5·9%	19
—	—	—	—	—	—	—	—	—	20
—	—	—	—	—	—	—	—	—	21
1,240	**21,828**	**28,604**	**61,326**	**218,954**	**72,179**	**53,094**	**95,844**	**80,273**	22

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

Item No.		Dominion of Canada, C.N.R. and Provinces	Eliminations	Dominion of Canada, and C.N.R.	Provinces
		1926 (1)			
1	ACTIVE OR SELF-SUPPORTING ASSETS	**1,454,464**	28,536	1,026,148	456,852
2	Percentage of total debt	32·6%	—	28·8%	48·0%
3	PUBLIC WORKS	**698,823**	—	329,139	369,684
4	Percentage of total debt	15·7%	—	9·2%	38·9%
5	OTHER ASSETS AND EXPENDITURES	**1,567,595**	2,678	1,433,929	136,344
6	Percentage of total debt	35·2%	—	40·2%	14·3%
7	DEFICIT ACCOUNTS	**738,751**	39,886	790,026	11,389
8	Percentage of total debt	16·5%	—	22·1%	1·2%
9	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
10	Percentage of total debt	—	—	0·3%	—
11	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**4,459,633**	61,476	**3,569,618**	**951,491**
		1930 (1)			
12	ACTIVE OR SELF-SUPPORTING ASSETS	**1,111,117**	24,894	538,563	597,448
13	Percentage of total debt	22·4%	—	14·2%	48·0%
14	PUBLIC WORKS	**960,790**	—	414,633	546,157
15	Percentage of total debt	19·3%	—	11·0%	43·8%
16	OTHER ASSETS AND EXPENDITURES	**2,389,635**	1,215	2,263,181	125,239
17	Percentage of total debt	48·1%	—	59·9%	10·0%
18	DEFICIT ACCOUNTS	**504,839**	44,872	572,501	22,790
19	Percentage of total debt	10·2%	—	15·2%	1·8%
20	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
21	Percentage of total debt	—	—	0·3%	—
22	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**4,966,381**	58,927	**3,779,254**	**1,246,054**

(1) As at the fiscal year ends nearest to December 31st.

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES — TABLE 51 (*Continued*)

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

ANALYSIS BY PROVINCES									Item No.
Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
1926 (1)									
58	11,816	7,427	47,512	257,195	56,615	27,281	33,708	15,240	1
2·8%	30·6%	19·6%	48·3%	63·2%	62·8%	46·4%	27·4%	15·9%	2
1,548	24,232	18,054	60,136	120,940	32,793	31,994	41,358	38,629	3
74·4%	62·9%	47·8%	61·0%	29·7%	36·4%	54·4%	33·7%	40·3%	4
8	193	12,043	10,406	10,381	4,203	3,642	44,930	50,538	5
0·4%	0·5%	31·9%	10·6%	2·6%	4·7%	6·2%	36·6%	52·7%	6
466	2,320	277	19,616	18,452	3,513	4,124	2,845	8,496	7
22·4%	6·0%	0·7%	19·9%	4·5%	3·9%	7·0%	2·3%	8·9%	8
—	—	—	—	—	—	—	—	—	9
—	—	—	—	—	—	—	—	—	10
2,080	**38,561**	**37,801**	**98,438**	**406,968**	**90,098**	**58,793**	**122,841**	**95,911**	11
1930 (1)									
49	20,195	10,654	52,288	330,506	65,513	36,075	57,245	24,923	12
1·7%	36·5%	20·3%	49·8%	59·8%	60·9%	36·2%	41·4%	18·9%	13
2,430	32,805	36,137	75,518	187,329	44,467	50,723	60,867	55,881	14
85·9%	59·2%	68·8%	72·0%	33·9%	41·3%	50·9%	44·0%	42·3%	15
16	708	4,228	23,764	23,625	4,237	14,271	7,271	47,119	16
0·6%	1·3%	8·0%	22·6%	4·3%	3·9%	14·3%	5·3%	35·6%	17
335	1,656	1,521	46,636	11,210	6,565	1,421	12,863	4,247	18
11·8%	3·0%	2·9%	44·4%	2·0%	6·1%	1·4%	9·3%	3·2%	19
—	—	—	—	—	—	—	—	—	20
—	—	—	—	—	—	—	—	—	21
2,830	**55,364**	**52,540**	**104,934**	**552,670**	**107,652**	**99,648**	**138,246**	**132,170**	22

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

Item No.		Dominion of Canada, C.N.R. and Provinces	Eliminations	Dominion of Canada, and C.N.R.	Provinces
		1933 (1)			
1	ACTIVE OR SELF-SUPPORTING ASSETS	**822,734**	94,544	324,174	593,104
2	Percentage of total debt	14·1%	—	7·4%	37·5%
3	PUBLIC WORKS	**1,102,647**	—	439,453	663,194
4	Percentage of total debt	18·9%	—	10·0%	42·0%
5	OTHER ASSETS AND EXPENDITURES	**2,966,753**	5,957	2,696,030	264,766
6	Percentage of total debt	50·8%	—	61·5%	16·7%
7	DEFICIT ACCOUNTS	**949,476**	45,318	935,419	59,375
8	Percentage of total debt	16·2%	—	21·3%	3·8%
9	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
10	Percentage of total debt	—	—	0·2%	—
11	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**5,841,610**	124,281	**4,385,452**	**1,580,439**
		1937 (1)			
12	ACTIVE OR SELF-SUPPORTING ASSETS	**1,064,735**	159,485	598,383	625,837
13	Percentage of total debt	16·1%	—	12·3%	31·9%
14	PUBLIC WORKS	**1,335,050**	—	459,415	875,635
15	Percentage of total debt	20·2%	—	9·5%	44·7%
16	OTHER ASSETS AND EXPENDITURES	**2,512,885**	1,561	2,149,440	361,884
17	Percentage of total debt	37·9%	—	44·3%	18·5%
18	DEFICIT ACCOUNTS	**1,708,920**	45,428	1,657,413	96,935
19	Percentage of total debt	25·8%	—	34·1%	4·9%
20	PROVINCE DEBT ACCOUNTS	—	9,624	9,624	—
21	Percentage of total debt	—	—	0·2%	—
22	TOTAL ASSETS AND EXPENDITURES, accounting for direct and indirect debt	**6,621,590**	193,728	**4,855,027**	**1,960,291**

(1) As at the fiscal years ends nearest to December 31st.

TABLE 51
(*Concluded*)

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

ANALYSIS BY PURPOSES

Thousands of Dollars

ANALYSIS BY PROVINCES									Item No.
Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	
1933 (1)									
101	22,544	10,985	47,900	339,270	43,585	53,221	46,571	28,927	1
2·6%	33·4%	17·9%	28·1%	49·0%	36·8%	34·6%	29·4%	18·8%	2
3,268	40,386	42,402	103,234	244,825	49,478	53,942	68,769	56,890	3
82·8%	60·0%	69·1%	60·6%	35·4%	41·8%	35·2%	43·5%	36·9%	4
44	2,054	6,514	42,284	81,175	26,350	44,916	14,791	46,638	5
1·1%	3·0%	10·6%	24·8%	11·7%	22·2%	29·2%	9·3%	30·2%	6
532	2,479	1,476	23,034	27,216	904	1,584	28,201	21,825	7
13·5%	3·6%	2·4%	13·5%	3·9%	0·8%	1·0%	17·8%	14·1%	8
—	—	—	—	—	—	—	—	—	9
—	—	—	—	—	—	—	—	—	10
3,945	**67,463**	**61,377**	**170,384**	**692,486**	**118,509**	**153,663**	**158,332**	**154,280**	11
1937 (1)									
226	23,098	12,524	60,687	351,119	44,529	50,532	43,846	39,276	12
3·8%	24·8%	15·3%	21·2%	43·5%	36·4%	23·4%	25·8%	22·0%	13
5,098	63,776	61,911	150,186	349,425	53,871	55,377	76,285	59,706	14
86·1%	68·5%	75·5%	52·6%	43·3%	44·0%	25·7%	44·9%	33·4%	15
93	3,500	5,995	102,919	48,841	28,083	103,393	21,986	47,074	16
1·6%	3·8%	7·3%	36·0%	6·1%	23·0%	47·9%	13·0%	26·4%	17
505	2,723	1,533	28,163	57,655	4,133	6,590	27,623	32,602	18
8·5%	2·9%	1·9%	9·8%	7·1%	3·4%	3·0%	16·3%	18·2%	19
—	—	—	—	—	—	—	—	—	20
—	—	—	—	—	—	—	—	—	21
5,922	**93,097**	**81,963**	**285,629**	**807,040**	**122,350**	**215,892**	**169,740**	**178,658**	22

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

OUTSTANDING DEBT

INCREASE OR DECREASE

Thousands of Dollars

Item No.	Year or Period	COMBINED DEBT Increase or Decrease	Eliminations (1)	DOMINION AND C.N.R. Increase or Decrease	PROVINCES Increase or Decrease (2)
1	1914-1921	3,309,420	38,156	2,999,202	348,374
2	1922-1924	354,486	10,194	104,798	259,882
3	1925	30,708	1,066	49,418	19,776
4	1926	32,166	524	5,801	38,491
5	1927	6,581	8,219	49,055	34,255
6	1928	24,896	1,430	28,915	55,241
7	1929	133,171	5,540	75,875	62,836
8	1930	355,262	1,300	211,731	142,231
9	1931	370,355	26,682	242,600	154,437
10	1932	226,451	25,441	157,675	94,217
11	1933	278,423	13,231	205,923	85,731
12	1934	260,101	27,499	170,171	117,429
13	1935	298,897	29,111	219,265	108,743
14	1936	57,163	3,025	24,524	29,614
15	1937	163,819	15,862	55,615	124,066
16		**5,827,321**	**182,192**	**4,334,190**	**1,675,323**
	RECONCILIATION				
17	Debt Outstanding, 1913	794,269	11,536	520,837	284,968
18	Increase, 1914-1937	5,827,321	182,192	4,334,190	1,675,323
19	Debt Outstanding, 1937	**6,621,590**	**193,728**	**4,855,027**	**1,960,291**

(1) Elimination of increase or decrease in inter-governmental debt.
(2) Increase or decrease before elimination of inter-governmental debt.
(3) Excludes unpaid interest, 2,695.
(4) Excludes unpaid interest, estimated at 6,095.

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

TABLE 52

OUTSTANDING DEBT

INCREASE OR DECREASE

Thousands of Dollars

ANALYSIS BY PROVINCES									Item No.
Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskat-chewan	Alberta	British Columbia	
278	10,147	17,132	29,478	177,418	26,600	13,900	43,793	29,628	1
686	10,583	5,293	34,045	158,507	13,508	4,714	16,661	15,885	2
173	4,140	2,325	1,419	7,075	1,969	305	3,621	1,251	3
19	2,010	1,579	1,648	22,432	2,442	680	6,715	1,004	4
160	3,162	1,930	67	15,622	1,757	1,153	7,489	2,915	5
192	2,790	3,493	2,257	31,674	4,537	3,892	4,153	6,767	6
177	6,472	2,870	631	32,501	4,746	12,583	7,616	10,472	7
221	4,379	6,446	8,055	65,905	6,514	23,227	11,379	16,105	8
547	4,297	5,786	20,426	45,548	8,405	37,914	16,328	15,186	9
289	1,043	1,236	20,403	53,738	1,002	8,428	4,739	3,339	10
279	6,759	1,815	24,621	40,530	1,450	7,673	981	3,585	11
357	4,180	1,404	17,803	58,048	2,450	19,747	6,564	6,876	12
1,055	6,877	4,412	21,682	44,896	719	12,627	6,938	9,537	13
214	5,957	5,625	25,749	11,632	3,355	5,504	(3) 1,356	7,206	14
351	8,620	9,145	50,011	23,242	2,683	35,359	(4) 738	759	15
4,960	**81,416**	**70,491**	**253,781**	**765,504**	**76,771**	**176,698**	**117,689**	**128,013**	16
RECONCILIATION									
962	11,681	11,472	31,848	41,536	45,579	39,194	52,051	50,645	17
4,960	81,416	70,491	253,781	765,504	76,771	176,698	117,689	128,013	18
5,922	**93,097**	**81,963**	**285,629**	**807,040**	**122,350**	**215,892**	**169,740**	**178,658**	19

TAXES ON CORPORATIONS

PROVINCES

Item No.	
	PROVINCIAL CORPORATION TAXES—
1	Accident and Guarantee Companies—
	(a) Flat rate
2	Banks—
	(a) Capital stock
	(b) Number of branches
	(c) Average monthly volume of business
	(d) Excess of average monthly deposits over the sum of average loans and the increase in investments in provincial and municipal securities during the year
	(e) Net income
	(f) Reserve fund and undivided profits
	(g) Private bankers
	(h) Average amount loans and deposits
3	Building Companies—
	(a) Flat rate—not over $500
4	Chain Stores—
	(a) Capital stock
	(b) Places of business
	(c) Net income
5	Electric Power Companies—
	(a) Capital stock
	(b) Places of business and population
	(c) Power lines and plants (Electric Power Taxation Act—Alberta)
	(d) Gross revenue
	(e) Net income
	(f) Electric meters in use
6	Express Companies—
	(a) Capital stock
	(b) Places of business
	(c) Mileage operated
	(d) Gross revenue
	(e) Net income
	(f) Surcharge
7	Extra-Provincial Companies—([5])
	(a) Retail sales in province
	(b) Capital invested or used in province
	(c) Gross income from construction contracts
	(d) Authorized capital and capital stock
	(e) Net income tax
	(f) Surcharge of $50
8	Finance Companies—
	(a) Capital stock
	(b) Places of business
	(c) Gross revenue
	(d) Flat rate
	(e) Net income

★ Denotes existence of tax.

([1]) Not specially taxed but treated as an ordinary company and taxed as such according to the general taxes shown under "Miscellaneous," Item 28.

([2]) Levied under the "Corporations Tax Act," New Brunswick, 1938.

([3]) Additional tax for companies with $30,000 or more paid-up capital.

TAXES ON CORPORATIONS

TABLE 53

PROVINCES

Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Item No.
									1
✱	—	—	—	—	—	—	—	—	(a)
									2
—	✱	—	✱	✱	—	—	✱	—	(a)
—	✱	✱	—	✱	✱	✱	✱	✱	(b)
—	✱	✱	—	—	—	—	—	—	(c)
—	—	✱	—	—	—	—	—	—	(d)
—	—	—	✱	✱	—	✱	✱	✱	(e)
—	—	—	—	✱	—	—	—	—	(f)
—	—	—	—	—	✱	✱	—	—	(g)
✱	—	—	—	—	—	—	—	—	(h)
									3
—	—	✱	—	—	—	—	—	—	(a)
									4
	—	—							(a)
✱	✱	(2)✱	(1)	(1)	(1)	(1)	(1)	(1)	(b)
	—	—							(c)
									5
—	✱	(2)✱		✱	—		—	—	(a)
—	—	—	(1)	—	✱	(1)	✱	—	(b)
—	—	—		—	—		✱	—	(c)
✱	✱	(2) (3)✱	—	—	—	—	—	✱	(d)
—	—	—	—	✱	—	—	✱	(4)✱	(e)
—	✱	—	—	—	—	—	—	—	(f)
									6
—	—	—	✱	—	—	—	—	—	(a)
—	—	✱	✱	—	✱	✱	✱	✱	(b)
—	✱	✱	—	✱	—	—	—	—	(c)
✱	—	—	—	—	—	—	—	—	(d)
—	—	—	✱	✱	—	✱	✱	✱	(e)
—	—	—	—	—	—	—	✱	—	(f)
									7
—	—	(6)✱	—	—	—	—	—	—	(a)
—	—	(6)✱	—	—	—	—	—	—	(b)
—	—	✱	—	—	—	—	—	—	(c)
—	—	✱	—	—	—	—	—	—	(d)
—	—	(2)✱	—	—	—	—	—	—	(e)
—	—	(2)✱	—	—	—	—	—	—	(f)
									8
—	✱	(2)✱				—	—		(a)
—	✱	—				✱	—		(b)
—	—	—	(1)	(7)	(1)	✱	✱	(1)	(c)
✱	—	(2)✱				—	—		(d)
—	—	(2)✱				✱	✱		(e)

(4) Where net income tax payable is higher than the gross income tax, assessment is made under net income tax.
(6) New Brunswick did not have a general corporation tax until 1938 except on Extra-Provincial Companies.
(6) Abolished by 1938 "Corpoations Tax Act," New Brunswick.
(7) Special tax on Finance Companies in Ontario abolished in 1935—now treated as an ordinary company and taxed as such according to the general taxes under "Miscellaneous" Item 28.

TAXES ON CORPORATIONS

PROVINCES

Item No.	
	PROVINCIAL CORPORATION TAXES (Continued)—
9	Fire Insurance Companies—
	(a) Gross premiums
	(b) Flat rate
	(c) Net premiums
10	Gas Companies—
	(a) Capital stock
	(b) Places of business and population
	(c) Gas consumed
	(d) Gross revenue
	(e) Net income
	(f) Gas meters in use
11	Grain Companies—
	(a) Capital stock
	(b) Elevators
	(c) Net income
	(d) Surcharge
12	Insurance Companies—
	(a) Gross insurance premiums
	(b) Net insurance premiums
	(c) Places of business
	(d) Investments (extra-provincial companies)
	(e) Net income
	(f) Flat rate on head office in or outside Province (Life only)
	(g) Capital stock
	(h) Surcharge
13	Investment Companies—
	(a) Capital stock
	(b) Places of business
	(c) Gross revenue
	(d) Net income
14	Land Companies—
	(a) Capital stock
	(b) Places of business
	(c) Net income
	(d) Investments and capital
	(e) Investment within the Province
15	Liquor Export Companies—
	(a) Flat rate—$15,000 per annum
16	Loan Companies—
	(a) Capital stock
	(b) Investments and deposits
	(c) Gross revenue
	(d) Net income
	(e) Fixed rate
	(f) Investment within the Province

★ Denotes existence of tax.

(1) Not specially taxed but treated as an ordinary company and taxed as such according to the general taxes shown under "Miscellaneous," Item 28.

(2) Levied under the "Corporations Tax Act," New Brunswick, 1938.

(3) Additional tax for companies with $30,000 or more paid-up capital.

TAXES ON CORPORATIONS

TABLE 53
(*Continued*)

PROVINCES

Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Item No.
									9
—	✱	—	—	✱	✱	—	✱	—	(a)
✱	—	✱	—	—	—	—	—	—	(b)
—	—	✱	✱	—	—	✱	—	✱	(c)
									10
	✱	(2)✱		✱	—		—	—	(a)
	—	—		—	✱		—	—	(b)
	—	—		—	—		✱	—	(c)
(1)	✱	(2) (3)✱	(1)	—	—	(1)	—	✱	(d)
	—	—		✱	—		✱	(4)✱	(e)
	✱	—		—	—		—	—	(f)
									11
							—		(a)
(1)	(1)	(1)	(1)	(1)	(1)	(1)	✱	(1)	(b)
							✱		(c)
							✱		(d)
									12
(5)✱	✱	—	—	✱	✱	—	✱	—	(a)
—	—	✱	✱	—	—	✱	—	✱	(b)
—	—	—	✱	—	—	—	—	—	(c)
—	—	—	—	—	—	—	✱	—	(d)
—	—	—	✱	✱	—	✱	✱	✱	(e)
—	—	(6)✱	—	—	—	—	—	—	(f)
—	—	—	✱	—	—	—	—	—	(g)
—	—	—	—	—	—	—	✱	—	(h)
									13
		—					—		(a)
		—					—		(b)
(1)	(1)	—	(1)	(1)	(1)	(1)	✱	(1)	(c)
		(2)✱					✱		(d)
									14
		—			—	—	—		(a)
		—			—	✱	—		(b)
(1)	(1)	(2)✱	(1)	(1)	—	✱	✱	(1)	(c)
		—			✱	—	—		(d)
		—			—	—	✱		(e)
									15
—	—	—	—	✱	—	—	—	—	(a)
									16
—	✱	(2)✱	✱	✱	✱	—	—	—	(a)
—	✱	—	—	—	—	✱	—	—	(b)
—	—	—	—	—	✱	—	✱	✱	(c)
—	—	(2)✱	✱	✱	—	✱	✱	(4)✱	(d)
✱	—	✱	—	—	—	—	—	—	(e)
—	—	—	—	✱	—	—	—	—	(f)

(4) Where net income tax payable is higher than the gross income tax, assessment is made under net income tax.
(5) Life companies only.
(6) Changed to Fixed Tax of $150 on each Insurance Company's head office whether located in or outside the Province of New Brunswick.

TAXES ON CORPORATIONS

PROVINCES

Item No.	
	PROVINCIAL CORPORATION TAXES (Continued)—
17	Mining Companies—
	(a) Capital stock
	(b) Places of business
	(c) Profits
	(d) Net income (metal mining companies)
	(e) Alternative 2% mineral tax—assessed value of ore removed from mine (metal mining companies only)
	(f) Coal mines and coke ovens, output tax on tonnage
18	Oil Companies—
	(a) Capital stock
	(b) Net income
	(c) Number and size of tanks
	(d) Pipe Line Taxation Act—based on the assessed valuation of the pipe line
19	Pipe Line Companies
20	Race Track Companies—
	(a) Capital stock
	(b) Places of business
	(c) Number of days track open
	(d) Net income
21	Railway Companies—
	(a) Capital stock
	(b) Mileage operated
	(c) Net income
	(d) Places of business
	(e) "The Railway Taxation Act"—gross earnings
	(f) Agreement
	(g) Surcharge
	(h) Flat rate
	(i) Payment in lieu of taxes—C.N.R.
	(j) Deduct portion of railway tax distributable to municipalities to be applied as payment to Health Department for indigent patients
22	Sleeping Car Companies—
	(a) Capital stock
	(b) Places of business
	(c) Net income
	(d) Investment in cars for use in Canada
	(e) Annual fixed charge not exceeding $300
23	Steamship Companies—
	(a) Capital stock
	(b) Places of business
	(c) Net income
	(d) Flat rate

★ Denotes existence of tax.

(1) Not specially taxed but treated as an ordinary company and taxed as such according to the general taxes shown under "Miscellaneous," Item 28.

(2) No producing companies in British Columbia.

(3) Levied under the "Corporations Tax Act," New Brunswick, 1938.

TAXES ON CORPORATIONS

TABLE 53
(Continued)

PROVINCES

Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Item No.
									17
			—	—				—	(a)
			—	—				—	(b)
			✱	✱				—	(c)
(1)	(1)	(1)	—	—	(1)	(1)	(1)	✱	(d)
			—	—				✱	(e)
			—	—				✱	(f)
									18
						—	✱		(a)
(1)	(1)	(1)	(1)	(1)	(1)	✱	✱	(2)	(b)
						✱	—		(c)
						—	✱		(d)
(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	19
									20
				—					(a)
(1)	(1)	(1)	(1)	—	(1)	(1)	(1)	(1)	(b)
				✱					(c)
				✱					(d)
									21
—	—	—	✱	—	—	—	—	—	(a)
—	✱	✱	—	✱	—	—	✱	✱	(b)
—	—	—	✱	✱	—	✱	✱	✱	(c)
—	—	—	✱	—	—	—	—	—	(d)
—	—	—	—	—	✱	—	—	—	(e)
—	—	—	—	—	—	✱	—	—	(f)
—	—	—	—	—	—	—	✱	—	(g)
✱	—	—	—	—	—	—	—	—	(h)
—	—	✱	—	—	—	—	—	—	(i)
—	—	—	—	✱	—	—	—	—	(j)
									22
		—	✱	—					(a)
		—	✱	—					(b)
(1)	(1)	—	✱	✱	(1)	(1)	(1)	(1)	(c)
		—	—	✱					(d)
		(3)✱	—	—					(e)
									23
—			✱						(a)
—	(1)	(1)	✱	(1)	(1)	(1)	(1)	(1)	(b)
—			✱						(c)
✱			—						(d)

TAXES ON CORPORATIONS

PROVINCES

Item No.	
	PROVINCIAL CORPORATION TAXES (Concluded)—
24	Telegraph Companies—
	(a) Capital stock
	(b) Places of business
	(c) Gross revenue
	(d) Net income
	(e) Amount invested in lines and property
	(f) Number of miles of wire used
	(g) Flat rate
	(h) Surcharge
25	Telephone Companies—
	(a) Capital stock
	(b) Places of business
	(c) Gross revenue
	(d) Net income
	(e) Telephone instruments in use
	(f) Long Distance Tolls
26	Tramway Companies—
	(a) Capital stock
	(b) Places of business
	(c) Mileage operated
	(d) Gross revenue
	(e) Net income
27	Trust Companies—
	(a) Capital stock
	(b) Gross revenue
	(c) Net income
	(d) Fixed rate
	(e) Gross profits
28	Miscellaneous Companies—([7])
	(a) Capital stock, value of shares or capital employed
	(b) Places of business
	(c) Net income
	(d) Annual returns and registration fees based on authorized capital
	(e) Other taxes—Gasoline dealers
	(f) Surcharge
29	Surcharge on Corporation Taxes—
	(a) Interest

★ Denotes existence of tax.

([1]) Levied under the "Corporations Tax Act," New Brunswick, 1938.

([2]) Not specially taxed but treated as an ordinary company and taxed as such according to the general taxes shown under "Miscellaneous," Item 28.

([3]) Municipally owned telephone companies in Alberta not taxed.

([4]) New Brunswick Telephone Co.—taxed on gross revenue from long distance calls. All other telephone companies in New Brunswick taxed on total gross revenue plus 25 cents per telephone. Changed to tax on paid-up capital for all companies in 1938—with additional tax on gross annual income if paid-up capital is over $30,000.

TAXES ON CORPORATIONS

TABLE 53
(Concluded)

PROVINCES

Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Item No.
									24
—	—	—	✱	—	—	—	—	—	(a)
—	—	✱	✱	—	—	✱	—	✱	(b)
—	—	✱	—	—	✱	✱	✱	—	(c)
—	—	—	✱	✱	—	✱	✱	✱	(d)
—	✱	✱	—	✱	—	—	—	—	(e)
—	—	✱	—	—	—	—	—	—	(f)
✱	✱	✱	—	—	—	—	—	—	(g)
—	—	—	—	—	—	—	✱	—	(h)
									25
—	✱	(1)✱	✱	✱				—	(a)
—	—	—	✱	—				—	(b)
✱	✱	(4)✱	—	—	(2)	(2)	(3)	✱	(c)
—	—	—	✱	✱				(5)✱	(d)
—	✱	✱	—	—				—	(e)
—	✱	(4)✱	—	—				—	(f)
									26
	—	—	✱		—		—	—	(a)
	—	—	✱		—		—	—	(b)
(2)	—	✱	—	(6)	✱	(2)	—	—	(c)
	✱	—	—		—		—	✱	(d)
	—	—	✱		—		—	(5)✱	(e)
									27
—	✱	(1)✱	✱	✱	✱	—	—	—	(a)
—	✱	—	—	✱	✱	✱	✱	✱	(b)
—	—	(1)✱	✱	✱	—	✱	✱	(5)✱	(c)
✱	—	✱	—	—	—	—	—	—	(d)
—	—	—	—	✱	—	—	—	—	(e)
									28
✱	(8)✱	—	✱	✱	✱	✱	✱	—	(a)
—	—	—	—	✱	✱	—	—	✱	(b)
—	—	(1)✱	✱	✱	(8)✱	✱	✱	✱	(c)
—	✱	—	—	—	—	—	—	—	(d)
✱	—	—	—	—	—	—	—	—	(e)
—	—	—	✱	—	—	—	✱	—	(f)
									29
—	—	—	✱	—	—	—	—	—	(a)

(4) Where net income tax payable is higher than the gross income tax, assessment is made under net income tax and taxed as such according to the general taxes shown under "Miscellaneous" Item 28.

(5) Special tax on Tramway Companies in Ontario discontinued in 1935. Now treated as ordinary companies.

(7) Includes all companies not specially taxed.

(8) Taxes on paid-up capital of $5,000,000 and over, employed in the Province by incorporated companies.

(8) Income taxes in Manitoba are levied on all companies not specially taxed under the "Corporations Tax Act."

DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES

TABLE 54

OVER-ALL SURPLUS OR DEFICIT

As adjusted for comparative purposes

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31					
		1913	1921	1926	1930	1933	1937
	DOMINION OF CANADA, CANADIAN NATIONAL RAILWAYS, AND PROVINCES—						
1	Revenue, Current Account (1)	166,896	409,677	479,985	471,767	414,524	686,148
2	Expenditure, Current Account (1)	152,809	431,522	392,806	550,367	587,257	714,013
3	Surplus or Deficit, Current Account	14,087	21,845	87,179	78,600	172,733	27,865
4	Expenditure, Capital Account	103,487	122,750	100,268	188,208	23,689	153,034
5	Over-all Deficit	**89,400**	**144,595**	**13,089**	**266,808**	**196,422**	**180,899**
	DOMINION OF CANADA AND CANADIAN NATIONAL RAILWAYS—(2)						
6	Revenue, Current Account (1)	135,203	332,508	360,290	314,043	281,372	464,324
7	Expenditure, Current Account (1)	118,294	354,467	282,545	387,844	405,430	478,168
8	Surplus or Deficit, Current Account	16,909	21,959	77,745	73,801	124,058	13,844
9	Expenditure, Capital Account	74,358	60,441	68,140	102,082	854	34,615
10	Over-all Surplus or Deficit	**57,449**	**82,400**	**9,605**	**175,883**	**123,204**	**48,459**
	PROVINCES—						
11	Revenue, Current Account (1)	44,935	90,400	133,757	173,823	150,283	244,474
12	Expenditure, Current Account (1)	47,381	90,653	124,559	183,400	198,942	258,500
13	Surplus or Deficit, Current Account	2,446	253	9,198	9,577	48,659	14,026
14	Expenditure, Capital Account	29,129	62,309	32,126	86,125	24,543	118,419
15	Over-all Deficit	**31,575**	**62,562**	**22,928**	**95,702**	**73,202**	**132,445**
	ELIMINATIONS—						
16	Revenue, Current Account	13,242	13,231	14,062	16,099	17,131	22,650
17	Expenditure, Current Account	12,866	13,598	14,298	20,877	17,115	22,655
	Amounts included in Dominion current expenditures, but not in provincial current revenues—						
18	Natural Resources Award (Manitoba)	—	—	—	4,584	—	—
19	Amounts included in Dominion capital expenditures, but not in provincial capital revenues	—	—	2	1	—	—
20	Other accounts	—	—	2	1	—	—
21	Variation, due to difference in fiscal year ends	376	367	236	194	16	5

(1) Less refunds.

(2) Includes cash operating deficits and advances to the Canadian National Railways.

PLAN II

TABLE 55

Thousands of Dollars

Item No.	——	1926	1930	1933	1936	1937	1938	(1)1939
	PRINCE EDWARD ISLAND—							
	PROVINCE—							
1	Surplus, before Sinking Funds	68	40	9	164	120	135	161
2	Sinking Funds	27	48	109	146	208	220	229
3	Surplus or Deficit	41	8	100	18	88	85	68
4	Relief to employables	—	—	—	14	21	50	(2)50
5	BALANCE	41	8	100	32	67	35	18
6	(Note also: Relief Works charged to Capital Account	—	—	—	218	288	34	*)
	MUNICIPALITIES—							
7	Surplus or Deficit	14	13	21	38	60		
8	Relief to employables	—	5	14	20	30		
9	BALANCE	14	8	7	18	30		
10	(Note also: Relief Works charged to Capital Account	—	—	—	25	34)		
	NOVA SCOTIA—							
	PROVINCE—							
11	Surplus or Deficit, before Sinking Funds	973	181	1,956	655	307	850	576
12	Sinking Funds	190	269	404	378	285	362	459
13	Surplus or Deficit	1,163	88	2,360	277	22	488	117
14	Relief to employables	—	—	472	—	236	302	191
15	BALANCE	1,163	88	1,888	277	258	790	308
16	(Note also: Relief Works charged to Capital Account	—	—	791	1,057	1,173	464	*)
	MUNICIPALITIES—							
17	Surplus or Deficit	499	13	466	276	135		
18	Relief to employables	—	70	652	178	172		
19	BALANCE	499	83	186	454	307		
20	(Note also: Relief Works charged to Capital Account	—	—	18	3	69)		
	NEW BRUNSWICK—							
	PROVINCE—							
21	Surplus or Deficit, before Sinking Funds	106	79	730	280	339	43	703
22	Sinking Funds	306	571	191	332	323	408	455
23	Surplus or Deficit	200	650	921	612	16	365	248
24	Relief to employables	—	—	252	324	28	149	(2)70
25	BALANCE	200	650	669	288	44	216	318
26	(Note also: Relief Works charged to Capital Account	—	—	365	905	614	*	*)
	MUNICIPALITIES—							
27	Surplus or Deficit	35	80	272	129	576		
28	Relief to employables	—	55	389	119	74		
29	BALANCE	35	135	117	248	650		
30	(Note also: Relief Works charged to Capital Account	—	—	115	—	15)		

(1) Provincial estimates adjusted to comparable basis.

(2) Commission estimate.

PLAN II

TABLE 55
(Continued)

Thousands of Dollars

Item No.	——	1926	1930	1933	1936	1937	(1)1938	(2)1939
	QUEBEC—							
	PROVINCE—							
1	Surplus or Deficit before Sinking Funds.	6,655	3,018	15,259	15,576	10,571	686	4,889
2	Sinking Funds	1,795	1,104	1,815	3,782	3,155	3,240	3,335
3	Surplus or Deficit	4,860	1,914	17,074	19,358	13,726	2,554	1,554
4	Relief to employables	—	312	5,743	8,730	11,454	4,333	4,466
5	BALANCE	4,860	2,226	11,331	10,628	2,272	1,779	6,020
6	(Note also: Relief Works charged to Capital Account	—	739	1,255	4,188	1,386	23,426	*)
	MUNICIPALITIES—							
7	Surplus or Deficit	643	579	6,219	5,024	5,190		
8	Relief to employables	—	525	7,696	9,829	7,829		
9	BALANCE	643	1,104	1,477	4,805	2,639		
10	(Note also: Relief Works charged to Capital Account	—	—	1,167	—	—)		
	ONTARIO—							
	PROVINCE—							
11	Surplus or Deficit, before Sinking Funds	692	1,031	13,020	10,045	3,352	615	1,249
12	Sinking Funds	215	—	—	1,017	1,041	(3)1,000	(3)1,000
13	Surplus or Deficit	907	1,031	13,020	9,028	2,311	1,615	2,249
14	Relief to employables	28	24	9,361	11,427	8,347	7,935	7,945
15	BALANCE	879	1,007	3,659	20,455	10,658	6,320	5,696
16	(Note also: Relief Works charged to Capital Account	—	—	2,164	2,457	5,252	*	*)
	MUNICIPALITIES—							
17	Surplus	1,183	169	1,087	2,005	1,956		
18	Relief to employables	—	1,180	6,956	7,615	5,209		
19	BALANCE	1,183	1,349	8,043	9,620	7,165		
20	(Note also: Relief Works charged to Capital Account	—	—	109	7	100)		
	MANITOBA—							
	PROVINCE—							
21	Surplus or Deficit, before Sinking Funds	1,303	1,233	2,466	1,527	(4)191	(4)129	(4)1,941
22	Sinking Funds	130	228	338	379	378	378	378
23	Surplus or Deficit	1,173	1,461	2,804	1,906	187	249	2,319
24	Relief to employables	10	498	2,101	3,078	2,584	1,943	(3)2,640
25	BALANCE	1,183	963	703	1,172	2,397	1,694	321
26	(Note also: Relief Works charged to Capital Account	—	117	13	874	320	*	*)
	MUNICIPALITIES—							
27	Surplus or Deficit	900	431	1,430	879	1,227		
28	Relief to employables	—	530	1,929	2,108	2,050		
29	BALANCE	900	961	499	1,229	823		
30	(Note also: Relief Works charged to Capital Account	—	208	—	494	407)		

(1) Provincial estimates, adjusted to comparable basis, for the Province of Ontario in 1938.
(2) Provincial estimates adjusted to comparable basis.
(3) Commission estimate.
(4) After special $750,000 subsidy from Dominion.

PLAN II

TABLE 55
(Concluded)

Thousands of Dollars

Item No.	——	1926	1930	1933	1936	1937	1938	1939(1)
	SASKATCHEWAN—							
	PROVINCE—							
1	Surplus or Deficit, before Sinking Funds	1,684	5,752	8,295	9,972	(2)11,815	(2)12,122	(3) 7,291
2	Sinking Funds	31	180	153	358	28	57	427
3	Surplus or Deficit	1,653	5,932	8,448	10,330	11,843	12,179	7,718
4	Relief to employables	31	1,633	5,617	(4)6,973	9,776	10,302	(5)5,573
5	BALANCE	1,684	4,299	2,831	3,357	2,067	1,877	2,145
6	(Note also: Relief Works charged to Capital Account	—	550	—	—	—	*	*)
	MUNICIPALITIES—							
7	Surplus or Deficit (6)	1,358	2,310	1,835	1,800	2,715		
8	Relief to employables	—	300	600	500	500		
9	BALANCE	1,358	2,610	2,435	2,300	3,215		
10	(Note also: Relief Works charged to Capital Account	—	98	1	2	—)		
	ALBERTA—							
	PROVINCE—							
11	Surplus or Deficit, before Sinking Funds	779	2,546	3,820	421	2,535	3,074	1,417
12	Sinking Funds	388	696	744	3	—	—	—
13	Surplus or Deficit	1,167	3,242	4,564	418	2,535	3,074	1,417
14	Relief to employables	21	637	1,235	2,229	1,540	932	1,064
15	BALANCE	1,146	2,605	3,329	2,647	4,075	4,006	2,481
16	Balance of full interest	—	—	—	2,695	3,400	3,300	3,200
17	Sinking Funds (1935)	—	—	—	705	708	708	708
18	BALANCE	1,146	2,605	3,329	753	33	2	1,427
19	(Note also: Relief Works charged to Capital Account	—	660	31	684	460	*	*)
	MUNICIPALITIES—							
20	Surplus	4,533	204	629	1,055	427		
21	Relief to employables	—	300	1,102	1,358	995		
22	BALANCE	4,533	504	1,731	2,413	1,422		
23	(Note also: Relief Works charged to Capital Account	—	500	10	—	97)		
	BRITISH COLUMBIA—							
	PROVINCE—							
24	Surplus or Deficit	1,826	2,175	3,067	104	1,497	2,081	1,802
25	Sinking Funds	1,630	2,159	586	658	853	3,727	752
26	Surplus or Deficit	196	4,334	3,653	762	644	1,646	2,554
27	Relief to employables	—	992	3,234	3,983	3,408	3,270	(5)3,376
28	BALANCE	196	3,342	419	3,221	4,052	1,624	822
29	(Note also: Relief Works charged to Capital Account	—	—	—	1,250	1,335	825	*)
	MUNICIPALITIES—							
30	Surplus or Deficit	700	278	905	822	1,564		
31	Relief to employables	—	260	1,072	751	749		
32	BALANCE	700	538	167	71	815		
33	(Note also: Relief Works charged to Capital Account	—	733	2	98	11)		

(1) Provincial estimates adjusted to comparable basis.
(2) After special $3,500,000 subsidy from Dominion.
(3) After special $1,500,000 subsidy from Dominion, per provincial estimates.
(4) Includes certain expenditures subsequently assumed by Dominion.
(5) Commission estimate.
(6) On an accrual—not a cash—basis.

COMPARATIVE STATISTICS OF PUBLIC FINANCE

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MUNICIPAL GOVERNMENTS

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SECTION III

MUNICIPAL GOVERNMENTS

INTRODUCTION

THIS section has been compiled with the assistance of the Citizens' Research Institute of Canada. An attempt has been made to classify municipal statistics in more significant groupings than customary, and in particular to bring out the special problem of the metropolitan areas.[1] "Other Urban" includes all the cities, towns, and villages, generally speaking of 500 inhabitants or more, not included in the selected metropolitan groupings, and "Rural" all remaining municipal organizations, although the division between "other urban" and "rural" is in some cases only approximate.

[1] As metropolitan areas the cities and surrounding suburbs of Montreal, Toronto, Windsor, Winnipeg, and Vancouver have been taken, although, as noted in Book II (Section B, Chap. 6) Hamilton, Quebec, and Ottawa are larger than Windsor, but have not as marked metropolitan characteristics. The "Metropolitan" areas selected include the following municipalities.—

MONTREAL:
- Montreal
- Westmount
- Outremont
- Verdun
- Lachine
- St. Lambert
- Longueuil
- Montreal East
- Montreal West
- Mount Royal
- La Salle
- St. Pierre
- Hampstead
- St. Laurent
- Pointe aux Trembles
- Montreal North
- Saint Michel
- Montreal South

TORONTO:
- Toronto
- New Toronto
- Mimico
- Weston
- Leaside
- Forest Hill
- Long Branch
- Swansea
- York Township
- East York Township
- Scarborough Township
- North York Township
- Etobicoke

WINDSOR:
- Windsor
- East Windsor
- Walkerville
- Sandwich
- Riverside
- Tecumseh
- Ojibway
- La Salle
- Sandwich East
- Sandwich West

WINNIPEG:
- Winnipeg
- St. Boniface
- Transcona
- Tuxedo
- Fort Garry
- Kildonan East
- Kildonan West
- St. James
- St. Vital

VANCOUVER:
- Vancouver
- North Vancouver
- New Westminster
- Burnaby District
- North Vancouver District
- West Vancouver District

SECTION III

MUNICIPAL GOVERNMENTS

INTRODUCTION—*Continued*

Revenues have been classified under real property taxes, sales and income taxes, "other" taxes, licences, permits and fees, public utility contributions, and "other" revenues. Expenditures have been classified under net debt service, education, relief, other public welfare, highways, and general government including miscellaneous. This analysis has been based on information contained in the annual reports of the provincial Departments of Municipal Affairs and Departments of Education, and in the records of the Dominion Bureau of Statistics and the Citizens' Research Institute of Canada. Where information was not available from these sources, estimates were made by sampling available reports of municipalities and school sections in the provinces concerned. Even where most of the information required was available from provincial reports, adjustments were necessary which in some cases involved a considerable degree of estimation to secure comparable classifications.

The amounts shown as Tax Revenues are taxes levied (as far as possible) and not cash collections. This accounts in some instances for the apparent excess of revenues over expenditures in recent years, particularly in the Prairie Provinces. This method avoids distortions due to abnormally favourable or unfavourable cash collections in any given year, and municipalities have, of course, tangible assets in the form of property liens to represent uncollected taxes, although in extreme circumstances these claims may be of little value. Unfortunately, there is insufficient information to prepare either comparable cash statements, or complete statements on an accrual basis, and to determine whether the latter provide adequate reserves and present a true picture. It was necessary to estimate the amounts shown under "Other Taxes," consisting largely of business taxes and, in the Maritimes, personal property taxes, in some cases in part on the basis of assessed values.

The division between revenue from "Licences, Permits, Fees, Fines, etc." and "Miscellaneous" is at best approximate. School fees and school miscellaneous revenues are included under these headings so far as possible. Public Utility contributions consisting of earnings in excess of interest requirements which were turned over to the municipality by municipally-owned waterworks, tramways, power plants, etc., in a number of provinces were not definitely obtainable.

"School Grants" are those received by the school boards from the province, but in the provinces such as New Brunswick, Nova Scotia, and Prince Edward Island, where grants are given directly to the teachers by the provincial governments, these sums are not included. Grants from provincial governments for highways and other purposes may not be entirely complete, as in some instances information is not available in municipal reports.

In order to give an approximate estimate of net debt charges, comparable with Dominion and provincial figures, interest and debt retirement payments on self-supporting utilities have been excluded, but no other adjustments (which would in any case be of minor importance) have been made. Debt charges on school debt are included. While a number of provincial reports give figures for debt charges, these sometimes include those on public utilities and usually do not include those on school debts. Also in most instances interest and debt repayment figures are not given separately. For these reasons, estimates have had to be made in many cases. They are based on extensive sampling of individual municipalities and school districts.

SECTION III

MUNICIPAL GOVERNMENTS

INTRODUCTION—*Concluded*

Educational expenditures do not include annual charges on debt incurred for school purposes. They do include expenditures on education in rural school districts including estimated amounts for rural districts in the Maritime Provinces.

Public welfare expenditures include expenditures on health and sanitation as well as poor relief, hospitals, etc. Amounts are estimated in considerable part on the basis of sampling representative municipalities.

Highway expenditures are seldom completely segregated in provincial reports and a degree of estimation was thus required. Annual charges on highway debt are shown under debt service and are not included in highway expenditures.

School board (including Separate School board) and guaranteed debts, following the practice adopted in the preparation of the Dominion and provincial statements, have been consolidated with the appropriate municipal bodies.[1] Total debt has been classified as General, School, Highway, and Public Utility, although the breakdown, both of debt and of sinking funds, has had to be estimated in a number of cases where actual figures were not available. It is thought, however, that the basis of estimation is sufficiently accurate to give a satisfactory picture of relative proportions and comparative trends, and to make possible the construction of the consolidated balance sheets in Section A of this Book.

[1] The figures of guaranteed debt do not include municipal guarantees also guaranteed by the province, since these have been included in the provincial statement, e.g., Vancouver and District Joint Sewerage and Drainage Board and the Sandwich, Windsor, and Amherstburg Railway. The debt of the Montreal Metropolitan Commission is not shown under guaranteed debt but has been apportioned to the individual municipalities, following the practice of the Municipal Statistics Report of the Province of Quebec. Figures of guaranteed debt are not complete as information was not available in all cases of industrial guarantees by municipalities.

MUNICIPAL GOVERNMENTS

TABLE 56

SUMMARY OF OUTSTANDING DEBT

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	SCHOOLS (Gross)—					
1	Metropolitan	32,827	71,620	94,019	109,970	115,228
2	Other Urban	27,431	59,142	78,749	98,203	86,981
3	Rural	5,933	10,120	14,964	18,226	14,684
4	Sub-Total—Schools (Gross)	*66,191*	*140,882*	*187,732*	*226,399*	*216,893*
	HIGHWAYS (Gross)—					
5	Metropolitan	72,764	106,284	128,563	166,680	189,600
6	Other Urban	82,157	118,914	135,131	163,106	141,500
7	Rural	8,284	19,855	22,336	23,643	16,900
8	Sub-Total—Highways (Gross)	*163,205*	*245,053*	*286,030*	*353,429*	*348,000*
	MUNICIPAL GENERAL (Gross)—					
9	Metropolitan	95,055	148,449	179,845	228,803	316,592
10	Other Urban	61,063	87,795	110,403	113,542	132,979
11	Rural	9,969	11,170	16,388	23,630	22,580
12	Sub-Total—Municipal General (Gross)	*166,087*	*247,414*	*306,636*	*365,975*	*472,151*
	LESS SINKING FUNDS—					
13	Metropolitan	17,387	50,540	58,442	69,932	106,132
14	Other Urban	15,047	42,378	56,905	73,219	70,721
15	Rural	883	2,303	3,688	4,027	5,280
16	Sub-Total—Sinking Funds	*33,317*	*95,221*	*119,035*	*147,178*	*182,133*
	PUBLIC UTILITY (Net)—					
17	Metropolitan	52,319	103,836	147,565	164,629	143,478
18	Other Urban	74,670	107,866	107,384	115,864	99,360
19	Rural	4,000	4,652	16,025	16,304	14,505
20	Sub-Total—Public Utility (Net)	*130,989*	*216,354*	*270,974*	*296,797*	*257,343*
	GUARANTEED—					
21	Metropolitan	1,720	38,863	44,356	45,407	45,424
22	Other Urban	—	607	1,172	1,493	1,455
23	Rural	—	—	—	—	—
24	Sub-Total—Guaranteed	*1,720*	*39,470*	*45,528*	*46,900*	*46,879*
	BANK LOANS—					
25	Metropolitan	—	—	34,800	55,500	52,193
26	Other Urban	9,740	3,898	20,198	25,960	35,502
27	Rural	37	5,834	5,575	14,563	24,313
28	Sub-Total—Bank Loans	*9,777*	*9,732*	*60,573*	*96,023*	*112,008*
	TOTAL OUTSTANDING DEBT—					
29	Metropolitan	237,298	418,512	570,706	701,057	756,383
30	Other Urban	240,014	335,844	396,132	444,949	427,056
31	Rural	27,340	49,328	71,600	92,339	87,702
32	GRAND TOTAL—OUTSTANDING DEBT	**504,652**	**803,684**	**1,038,438**	**1,238,345**	**1,271,141**

MUNICIPAL GOVERNMENTS

TABLE 57

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	100,530	165,759	202,777	251,990	344,534
2	Ontario (Toronto)	51,057	132,818	209,006	252,267	222,699
3	(Windsor)	1,540	11,489	26,572	38,024	35,138
4	Manitoba (Winnipeg)	36,971	57,790	75,930	80,144	73,266
5	British Columbia (Vancouver)	47,200	50,656	56,421	78,632	80,746
6	Sub-Total—Metropolitan	*237,298*	*418,512*	*570,706*	*701,057*	*756,383*
	OTHER URBAN—					
7	Prince Edward Island	705	1,132	1,268	1,586	2,597
8	Nova Scotia	12,109	18,513	20,340	22,120	21,915
9	New Brunswick	6,552	11,508	14,483	15,651	16,718
10	Quebec	32,132	48,364	69,660	87,856	113,706
11	Ontario	69,984	126,264	155,573	182,662	163,006
12	Manitoba	4,348	6,593	5,567	4,756	4,104
13	Saskatchewan	34,625	39,662	41,126	46,102	37,258
14	Alberta	59,959	58,866	64,266	62,645	46,851
15	British Columbia	19,600	24,942	23,849	21,571	20,901
16	Sub-Total—Other Urban	*240,014*	*335,844*	*396,132*	*444,949*	*427,056*
	RURAL—					
17	Prince Edward Island (included in Other Urban)	—	—	—	—	—
18	Nova Scotia	837	1,146	1,387	1,490	1,785
19	New Brunswick	137	254	1,309	1,216	3,712
20	Quebec	6,538	4,809	7,362	13,905	15,977
21	Ontario	8,767	21,365	32,310	38,697	27,105
22	Manitoba	2,300	5,440	9,719	10,379	9,790
23	Saskatchewan	3,002	9,831	14,254	17,925	20,474
24	Alberta	1,609	1,566	1,056	3,622	4,453
25	British Columbia	4,150	4,917	4,203	5,105	4,406
26	Sub-Total—Rural	*27,340*	*49,328*	*71,600*	*92,339*	*87,702*
	TOTAL—					
27	Prince Edward Island	705	1,132	1,268	1,586	2,597
28	Nova Scotia	12,946	19,659	21,727	23,610	23,700
29	New Brunswick	6,689	11,762	15,792	16,867	20,430
30	Quebec	139,200	218,932	279,799	353,751	474,217
31	Ontario	131,348	291,936	423,461	511,650	447,948
32	Manitoba	43,619	69,823	91,216	95,279	87,160
33	Saskatchewan	37,627	49,493	55,380	64,027	57,732
34	Alberta	61,568	60,432	65,322	66,267	51,304
35	British Columbia	70,950	80,515	84,473	105,308	106,053
36	GRAND TOTAL—OUTSTANDING DEBT	**504,652**	**803,684**	**1,038,438**	**1,238,345**	**1,271,141**

MUNICIPAL GOVERNMENTS

TABLE 58

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

ANALYSIS BY PROVINCES

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	METROPOLITAN—					
	QUEBEC (Montreal)—					
1	Schools (gross)	13,003	27,978	36,571	42,190	56,350
2	Highways (gross)	14,000	24,500	32,000	38,874	72,800
3	Municipal General (gross)	60,311	96,765	114,436	144,208	202,195
4	Less Sinking Funds	559	7,684	16,930	25,382	51,833
5	Public Utility (net)	13,775	24,200	29,200	44,600	45,229
6	Bank Loans	—	—	7,500	7,500	19,793
7		*100,530*	*165,759*	*202,777*	*251,990*	*344,534*
	ONTARIO (Toronto)—					
8	Schools (gross)	8,574	24,133	31,488	35,124	32,896
9	Highways (gross)	25,000	40,000	46,273	62,467	59,100
10	Municipal General (gross)	10,342	16,744	20,857	29,455	35,981
11	Less Sinking Funds	10,831	22,018	14,906	12,152	15,840
12	Public Utility (net)	16,252	51,556	80,732	80,896	67,710
13	Guaranteed	1,720	22,403	27,562	23,977	24,852
14	Bank Loans	—	—	17,000	32,500	18,000
15		*51,057*	*132,818*	*209,006*	*252,267*	*222,699*
	ONTARIO (Windsor)—					
16	Highways (gross)	800	4,000	10,809	15,806	12,300
17	Schools (gross)					
18	Municipal General (gross)	645	5,370	11,346	15,569	19,286
19	Less Sinking Funds	97	78	178	184	3
20	Public Utilities (net)	192	1,807	3,129	3,073	200
21	Guaranteed	—	390	1,466	3,760	3,355
22		*1,540*	*11,489*	*26,572*	*38,024*	*35,138*
	MANITOBA (Winnipeg)—					
23	Schools (gross)	4,500	8,600	9,700	9,800	10,500
24	Highways (gross)	7,500	10,000	13,872	12,112	8,800
25	Municipal General (gross)	15,671	17,036	20,186	24,014	33,184
26	Less Sinking Funds	3,700	10,836	15,436	16,829	21,120
27	Public Utility (net)	13,000	16,920	23,780	24,766	20,858
28	Guaranteed	—	16,070	15,328	14,281	12,144
29	Bank Loans	—	—	8,500	12,000	8,900
30		*36,971*	*57,790*	*75,930*	*80,144*	*73,266*
	BRITISH COLUMBIA (Vancouver)—					
31	Schools (gross)	6,500	7,397	8,940	12,516	12,419
32	Highways (gross)	25,464	27,784	25,609	37,421	36,600
33	Municipal General (gross)	8,336	16,046	20,340	25,897	29,009
34	Less Sinking Funds	2,200	9,924	10,992	15,385	17,336
35	Public Utility (net)	9,100	9,353	10,724	11,294	9,481
36	Guaranteed	—	—	—	3,389	5,073
37	Bank Loans	—	—	1,800	3,500	5,500
38		*47,200*	*50,656*	*56,421*	*78,632*	*80,746*
	ALL PROVINCES—					
39	Schools (gross)	32,827	71,620	94,019	109,970	115,228
40	Highways (gross)	72,764	106,284	128,563	166,680	189,600
41	Municipal General (gross)	95,055	148,449	179,845	228,803	316,592
42	Less Sinking Funds	17,387	50,540	58,442	69,932	106,132
43	Public Utility (net)	52,319	103,836	147,565	164,629	143,478
44	Guaranteed (net)	1,720	38,863	44,356	45,407	45,424
45	Bank Loans	—	—	34,800	55,500	52,193
46	TOTAL OUTSTANDING DEBT, Metropolitan	**237,298**	**418,512**	**570,706**	**701,057**	**756,383**

MUNICIPAL GOVERNMENTS

TABLE 58 (*Continued*)

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

ANALYSIS BY PROVINCES

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	OTHER URBAN—					
	PRINCE EDWARD ISLAND—					
1	Schools (gross)	29	130	85	154	204
2	Highways (gross)	500	700	750	770	1,000
3	Municipal General (gross)	20	267	268	325	1,230
4	Less Sinking Funds	26	114	155	195	377
5	Public Utility (net)	182	149	266	470	242
6	Bank Loans	—	—	54	62	298
7		*705*	*1,132*	*1,268*	*1,586*	*2,597*
	NOVA SCOTIA—					
8	Schools (gross)	(1)	4,239	4,843	5,450	5,537
9	Highways (gross)	3,000	3,706	4,547	4,773	8,000
10	Municipal General (gross)	(1)5,203	5,730	6,572	9,383	11,305
11	Less Sinking Funds	837	2,234	4,197	6,011	9,008
12	Public Utility (net)	4,168	6,247	7,275	6,988	5,281
13	Bank Loans	575	825	1,300	1,537	800
14		*12,109*	*18,513*	*20,340*	*22,120*	*21,915*
	NEW BRUNSWICK—					
15	Schools (gross)	(1)	1,996	3,420	3,798	4,771
16	Highways (gross)	575	1,366	1,378	2,288	2,700
17	Municipal General (gross)	(1)3,197	2,317	2,480	4,263	5,440
18	Less Sinking Funds	1,146	1,064	1,553	3,259	4,334
19	Public Utility (net)	3,926	6,893	7,858	6,561	6,141
20	Bank Loans	—	—	900	2,000	2,000
21		*6,552*	*11,508*	*14,483*	*15,651*	*16,718*
	QUEBEC—					
22	Schools (gross)	3,200	7,087	13,064	18,457	21,052
23	Highways (gross)	11,000	15,500	18,000	25,864	36,200
24	Municipal General (gross)	7,648	14,054	25,028	23,365	18,315
25	Less Sinking Funds	641	1,977	5,357	6,930	7,165
26	Public Utility (net)	10,925	13,700	16,625	24,800	30,150
27	Bank Loans	—	—	2,300	2,300	15,154
28		*32,132*	*48,364*	*69,660*	*87,856*	*113,706*
	ONTARIO—					
29	Schools (gross)	7,837	23,308	34,255	43,168	35,650
30	Highways (gross)	35,000	55,000	65,898	86,297	55,700
31	Municipal General (gross)	17,270	27,399	29,659	21,511	45,829
32	Less Sinking Funds	7,890	18,278	21,379	23,776	18,333
33	Public Utility (net)	17,767	38,228	35,968	40,469	32,705
34	Guaranteed	—	607	1,172	1,493	1,455
35	Bank Loans	—	—	10,000	13,500	10,000
36		*69,984*	*126,264*	*155,573*	*182,662*	*163,006*

(1) School gross debt for New Brunswick and Nova Scotia, amount unknown, included in Municipal General.

MUNICIPAL GOVERNMENTS

TABLE 58 (*Continued*)

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

ANALYSIS BY PROVINCES

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	OTHER URBAN—(Concluded)					
	MANITOBA—					
1	Schools (gross)	300	1,100	1,600	1,500	1,500
2	Highways (gross)	500	900	1,330	935	1,300
3	Municipal General (gross)	2,848	3,567	2,362	2,430	1,980
4	Less Sinking Funds	600	1,013	2,544	3,588	3,034
5	Public Utility (net)	1,300	2,039	2,399	2,479	1,358
6	Bank Loans	—	—	420	1,000	1,000
7		*4,348*	*6,593*	*5,567*	*4,756*	*4,104*
	SASKATCHEWAN—					
8	Schools (gross)	5,037	8,843	9,054	12,028	9,398
9	Highways (gross)	8,500	10,500	12,200	14,000	13,600
10	Municipal General (gross)	8,364	9,608	11,657	15,271	15,399
11	Less Sinking Funds	1,066	4,539	7,549	8,140	12,280
12	Public Utility (net)	11,434	12,325	12,764	10,767	8,641
13	Bank Loans	2,356	2,925	3,000	2,176	2,500
14		*34,625*	*39,662*	*41,126*	*46,102*	*37,258*
	ALBERTA—					
15	Schools (gross)	9,528	9,963	9,793	10,837	7,721
16	Highways (gross)	13,150	21,850	22,200	19,800	16,000
17	Municipal General (gross)	13,345	17,662	25,011	29,760	21,536
18	Less Sinking Funds	1,441	10,353	10,093	15,606	12,560
19	Public Utility (net)	18,568	19,596	16,031	15,469	11,654
20	Bank Loans	6,809	148	1,324	2,385	2,500
21		*59,959*	*58,866*	*64,266*	*62,645*	*46,851*
	BRITISH COLUMBIA—					
22	Schools (gross)	1,500	2,476	2,635	2,811	1,148
23	Highways (gross)	9,932	9,392	8,828	8,379	7,000
24	Municipal General (gross)	3,168	7,191	7,366	7,234	11,945
25	Less Sinking Funds	1,400	2,806	4,078	5,714	3,630
26	Public Utility (net)	6,400	8,689	8,198	7,861	3,188
27	Bank Loans	—	—	900	1,000	1,250
28		*19,600*	*24,942*	*23,849*	*21,571*	*20,901*
	ALL PROVINCES—					
29	Schools (gross)	(1)27,431	59,142	78,749	98,203	86,981
30	Highways (gross)	82,157	118,914	135,131	163,106	141,500
31	Municipal General (gross)	(1)61,063	87,795	110,403	113,542	132,979
32	Less Sinking Funds	15,047	42,378	56,905	73,219	70,721
33	Public Utility (net)	74,670	107,866	107,384	115,864	99,360
34	Guaranteed	—	607	1,172	1,493	1,455
35	Bank Loans	9,740	3,898	20,198	25,960	35,502
36	TOTAL OUTSTANDING DEBT, Other Urban	**240,014**	**335,844**	**396,132**	**444,949**	**427,056**

(1) School gross debt for New Brunswick and Nova Scotia, amount unknown, included in Municipal General.

MUNICIPAL GOVERNMENTS

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

ANALYSIS BY PROVINCES

Thousands of Dollars

TABLE 58 *(Continued)*

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	RURAL—					
	NOVA SCOTIA—					
1	Schools (gross)	(1)	(1)	(1)	(1)	(1)
2	Municipal General (gross)	951	1,322	1,538	1,505	2,002
3	Less Sinking Funds	151	265	467	614	757
4	Public Utility (net)	—	—	—	—	85
5	Bank Loans	37	89	316	599	455
6		*837*	*1,146*	*1,387*	*1,490*	*1,785*
	NEW BRUNSWICK—					
7	Schools (gross)	(1)	(1)	(1)	(1)	(1)
8	Highways (gross)	25	29	158	160	300
9	Municipal General (gross)	122	257	1,424	1,441	4,127
10	Less Sinking Funds	10	32	314	484	836
11	Public Utility (net)	—	—	—	—	—
12	Bank Loans	—	—	41	99	121
13		*137*	*254*	*1,309*	*1,216*	*3,712*
	QUEBEC—					
14	Schools (gross)	797	1,173	779	957	1,597
15	Municipal General (gross)	3,741	1,899	3,868	9,085	5,345
16	Less Sinking Funds	—	163	232	524	143
17	Public Utility (net)	2,000	1,900	2,275	3,700	6,021
18	Bank Loans	—	—	672	687	3,157
19		*6,538*	*4,809*	*7,362*	*13,905*	*15,977*
	ONTARIO—					
20	Schools (gross)	1,323	3,210	6,299	7,435	5,657
21	Highways (gross)	5,000	15,000	15,824	18,188	11,900
22	Municipal General (gross)	2,916	4,085	7,370	9,018	7,293
23	Less Sinking Funds	472	930	1,320	1,359	2,191
24	Public Utility (net)	—	—	2,098	2,915	2,382
25	Bank Loans	—	—	2,039	2,500	2,064
26		*8,767*	*21,365*	*32,310*	*38,697*	*27,105*
	MANITOBA—					
27	Schools (gross)	261	783	3,490	3,797	2,590
28	Highways (gross)	1,000	2,500	4,412	3,929	3,900
29	Municipal General (gross)	739	1,807	540	855	2,082
30	Less Sinking Funds	—	150	325	71	55
31	Public Utility (net)	300	500	602	267	228
32	Bank Loans	—	—	1,000	1,602	1,045
33		*2,300*	*5,440*	*9,719*	*10,379*	*9,790*

(1) School gross debt, amount unknown, included in Municipal General.

MUNICIPAL GOVERNMENTS

TABLE 58 (*Concluded*)

OUTSTANDING DEBT

METROPOLITAN, OTHER URBAN AND RURAL

ANALYSIS BY PROVINCES

Thousands of Dollars

Item No.		As at fiscal year ends nearest to December 31				
		1913	1921	1926	1930	1937
	RURAL—(Concluded)					
	SASKATCHEWAN—					
1	Schools (gross)	1,853	2,992	2,959	3,631	3,302
2	Highways (gross)	900	900	700	600	400
3	Municipal General (gross)	249	194	296	266	232
4	Less Sinking Funds	—	—	—	—	—
5	Public Utility (net)	—	—	9,026	6,628	3,674
6	Bank Loans	—	5,745	1,273	6,800	12,866
7		*3,002*	*9,831*	*14,254*	*17,925*	*20,474*
	ALBERTA—					
8	Schools (gross)	1,499	1,467	911	1,800	978
9	Highways (gross)	100	90	40	20	—
10	Municipal General (gross)	10	9	5	2	6
11	Less Sinking Funds	—	—	—	—	—
12	Public Utility (net)	—	—	—	—	—
13	Bank Loans	—	—	100	1,800	3,469
14		*1,609*	*1,566*	*1,056*	*3,622*	*4,453*
	BRITISH COLUMBIA—					
15	Schools (gross)	200	495	526	606	560
16	Highways (gross)	1,259	1,336	1,202	746	400
17	Municipal General (gross)	1,241	1,597	1,347	1,458	1,493
18	Less Sinking Funds	250	763	1,030	975	1,298
19	Public Utility (net)	1,700	2,252	2,024	2,794	2,115
20	Bank Loans	—	—	134	476	1,136
21		*4,150*	*4,917*	*4,203*	*5,105*	*4,406*
	ALL PROVINCES—					
22	Schools (gross) [1]	5,933	10,120	14,964	18,226	14,684
23	Highways (gross)	8,284	19,855	22,336	23,643	16,900
24	Municipal General (gross) [1]	9,969	11,170	16,388	23,630	22,580
25	Less Sinking Funds	883	2,303	3,688	4,027	5,280
26	Public Utility (net)	4,000	4,652	16,025	16,304	14,505
27	Bank Loans	37	5,834	5,575	14,563	24,313
28	TOTAL OUTSTANDING DEBT—RURAL	27,340	49,328	71,600	92,339	87,702

[1] School gross debt in Nova Scotia and New Brunswick, amount unknown, included in Municipal General.

MUNICIPAL GOVERNMENTS

TABLE 59

OVER-ALL SURPLUS OR DEFICIT

EXCLUDING DEBT RETIREMENT

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	ALL PROVINCES—					
1	Revenue, Current Account	109,875	230,387	270,832	317,155	309,065
2	Expenditure, Current Account	100,398	204,883	240,311	285,728	282,037
3	Surplus, Current Account	9,477	25,504	30,521	31,427	27,028
4	Expenditure, Capital Account	85,150	58,359	51,367	96,511	27,695
5	Bank Loans and cash collection adjustment (1)	*	*	*	*	462
6	Over-all Deficit	75,673	32,855	20,846	65,084	1,129
	PRINCE EDWARD ISLAND—					
7	Revenue, Current Account	154	324	380	429	472
8	Expenditure, Current Account	149	309	349	417	517
9	Surplus or Deficit, Current Account	5	15	31	12	45
10	Expenditure, Capital Account	18	185	50	95	300
11	Over-all Deficit	13	170	19	83	345
	NOVA SCOTIA—					
12	Revenue, Current Account	2,996	7,072	7,778	8,301	9,175
13	Expenditure, Current Account	2,934	6,661	6,844	7,840	8,490
14	Surplus, Current Account	62	411	934	461	685
15	Expenditure, Capital Account	453	1,896	985	1,135	387
16	Bank Loans and cash collection adjustment (1)	*	*	*	*	31
17	Over-all Surplus or Deficit	391	1,485	51	674	267
	NEW BRUNSWICK—					
18	Revenue, Current Account	1,805	4,285	5,625	5,735	6,585
19	Expenditure, Current Account	1,780	4,130	5,420	5,415	5,656
20	Surplus, Current Account	25	155	205	320	929
21	Expenditure, Capital Account	63	21	1,555	(2)566	394
22	Bank Loans and cash collection adjustment (1)	*	*	*	*	500
23	Over-all Surplus or Deficit	38	176	1,350	246	35
	QUEBEC—					
24	Revenue, Current Account	20,900	45,450	58,125	71,961	84,268
25	Expenditure, Current Account	20,800	41,238	53,597	65,821	80,978
26	Surplus, Current Account	100	4,212	4,528	6,140	3,290
27	Expenditure, Capital Account	7,550	6,436	14,983	32,445	439
28	Over-all Surplus or Deficit	7,450	2,224	10,455	26,305	2,851

* Information not available.

(1) For year 1937 only.

(2) Excludes reduction of debt due to sale of Harbours and Wharves, City of St. John, to the Dominion of Canada.

MUNICIPAL GOVERNMENTS

TABLE 59 (*Concluded*)

OVER-ALL SURPLUS OR DEFICIT

EXCLUDING DEBT RETIREMENT

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	ONTARIO—					
1	Revenue, Current Account	39,085	90,228	111,754	133,366	125,636
2	Expenditure, Current Account	34,414	82,504	100,496	118,366	108,039
3	Surplus, Current Account	4,671	7,724	11,258	15,000	17,597
4	Expenditure, Capital Account	25,705	30,874	19,049	45,683	20,392
5	Over-all Deficit	21,034	23,150	7,791	30,683	2,795
	MANITOBA—					
6	Revenue, Current Account	11,222	21,931	20,990	23,310	20,067
7	Expenditure, Current Account	10,107	18,337	18,240	21,359	19,900
8	Surplus, Current Account	1,115	3,594	2,750	1,951	167
9	Expenditure, Capital Account	5,834	10,112	2,545	688	2,903
10	Bank Loans and cash collection adjustment (1)	*	*	*	*	2,613
11	Over-all Surplus or Deficit	4,719	6,518	205	1,263	123
	SASKATCHEWAN—					
12	Revenue, Current Account	10,814	25,256	24,652	28,185	21,234
13	Expenditure, Current Account	9,929	19,376	21,933	24,557	17,774
14	Surplus, Current Account	885	5,880	2,719	3,628	3,460
15	Expenditure, Capital Account	6,472	5,835	2,267	9,187	*
16	Bank Loans and cash collection adjustment (1)	*	*	*	*	4,103
17	Over-all Surplus or Deficit	5,587	45	452	5,559	(2)643
	ALBERTA—					
18	Revenue, Current Account	11,323	19,868	23,689	23,093	20,589
19	Expenditure, Current Account	9,048	16,416	17,818	21,407	19,123
20	Surplus, Current Account	2,275	3,452	5,871	1,686	1,466
21	Expenditure, Capital Account	22,616	4,166	5,389	3,472	773
22	Bank Loans and cash collection adjustment (1)	*	*	*	*	569
23	Over-all Surplus or Deficit	20,341	714	482	1,786	1,262
	BRITISH COLUMBIA—					
24	Revenue, Current Account	11,576	15,973	17,839	22,775	21,039
25	Expenditure, Current Account	11,237	15,912	15,614	20,546	21,560
26	Surplus or Deficit, Current Account	339	61	2,225	2,229	521
27	Expenditure, Capital Account	16,439	1,124	4,544	3,240	2,107
28	Bank Loans and cash collection adjustment (1)	*	*	*	*	990
29	Over-all Surplus or Deficit	16,100	1,185	2,319	1,911	1,638

* Information not available.

(1) For year 1937 only.

(2) Does not include capital expenditures.

MUNICIPAL GOVERNMENTS

TABLE 60

REVENUE — CURRENT ACCOUNT

REAL PROPERTY TAXES

Thousands of Dollars

Item No.	For the fiscal years →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	10,100	20,700	26,530	35,594	37,093
2	Ontario (Toronto)	8,751	22,679	27,201	34,385	38,920
3	(Windsor)	449	2,364	4,627	7,169	3,937
4	Manitoba (Winnipeg)	5,247	10,536	10,284	11,716	9,771
5	British Columbia (Vancouver)	5,439	8,436	9,599	14,154	12,191
6	Sub-Total	*29,986*	*64,715*	*78,241*	*103,018*	*101,912*
	OTHER URBAN—					
7	Prince Edward Island	90	200	251	280	307
8	Nova Scotia	1,295	3,680	3,855	4,034	4,451
9	New Brunswick	825	1,800	2,445	2,380	2,937
10	Quebec	3,300	9,950	11,845	13,320	15,800
11	Ontario	12,860	29,889	36,780	43,026	45,224
12	Manitoba	1,400	1,850	1,731	1,734	1,551
13	Saskatchewan	5,618	8,347	7,499	8,189	7,353
14	Alberta	8,042	10,170	10,432	11,657	10,188
15	British Columbia	2,961	3,277	3,448	3,557	3,479
16	Sub-Total	*36,391*	*69,163*	*78,286*	*88,177*	*91,290*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	720	1,593	1,763	1,860	2,130
19	New Brunswick	280	820	1,280	1,320	1,400
20	Quebec	3,050	6,400	7,200	7,840	7,540
21	Ontario	9,011	19,126	22,663	24,951	19,664
22	Manitoba	2,975	6,895	5,525	6,550	4,940
23	Saskatchewan	4,546	12,971	12,496	14,217	8,162
24	Alberta	1,755	6,328	9,545	7,410	6,021
25	British Columbia	1,600	1,645	1,641	1,775	1,877
26	Sub-Total	*23,937*	*55,778*	*62,113*	*65,923*	*51,734*
	TOTAL—					
27	Prince Edward Island	90	200	251	280	307
28	Nova Scotia	2,015	5,273	5,618	5,894	6,581
29	New Brunswick	1,105	2,620	3,725	3,700	4,337
30	Quebec	16,450	37,050	45,575	56,754	60,433
31	Ontario	31,071	74,058	91,271	109,531	107,745
32	Manitoba	9,622	19,281	17,540	20,000	16,262
33	Saskatchewan	10,164	21,318	19,995	22,406	15,515
34	Alberta	9,797	16,498	19,977	19,067	16,209
35	British Columbia	10,000	13,358	14,688	19,486	17,547
36	Total—Real Property Taxes	**90,314**	**189,656**	**218,640**	**257,118**	**244,936**

MUNICIPAL GOVERNMENTS

TABLE 60 (*Continued*)

REVENUE — CURRENT ACCOUNT

SALES TAXES AND INCOME TAXES

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	SALES TAXES—					
	METROPOLITAN—					
1	Quebec (Montreal)	—	—	—	—	4,412
2	Total—Sales Taxes	—	—	—	—	**4,412**
	INCOME TAXES ON PERSONS—					
	METROPOLITAN—					
3	Quebec (Montreal)	—	—	—	—	1,694
4	Ontario (Toronto)	—	—	2,121	2,615	—
	OTHER URBAN—					
5	Nova Scotia	38	73	45	45	47
6	New Brunswick	—	—	—	—	129
7	Ontario	—	—	1,000	1,100	—
8	Alberta	—	—	112	136	—
9	Sub-Total	*38*	*73*	*1,157*	*1,281*	*176*
	TOTAL—					
10	Nova Scotia	38	73	45	45	47
11	New Brunswick	—	—	—	—	129
12	Quebec	—	—	—	—	1,694
13	Ontario	—	—	3,121	3,715	—
14	Alberta	—	—	112	136	—
15	Total—Income Taxes on Persons	**38**	**73**	**3,278**	**3,896**	**1,870**

MUNICIPAL GOVERNMENTS

TABLE 60 (*Continued*)

REVENUE — CURRENT ACCOUNT

OTHER TAXES

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	900	2,100	2,600	3,250	2,494
2	Ontario (Toronto)	1,250	4,500	2,979	4,085	4,100
3	(Windsor)	50	210	450	475	390
4	Manitoba (Winnipeg)	325	625	650	735	920
5	British Columbia (Vancouver)	5	24	140	135	139
6	Sub-Total	*2,530*	*7,459*	*6,819*	*8,680*	*8,043*
	OTHER URBAN—					
7	Prince Edward Island	30	80	80	100	115
8	Nova Scotia	397	827	1,095	1,105	1,136
9	New Brunswick	475	1,240	1,300	1,350	1,451
10	Quebec	400	950	1,375	1,890	1,950
11	Ontario	1,750	4,000	4,050	4,600	4,060
12	Manitoba	100	150	175	175	140
13	Saskatchewan	100	1,080	1,125	1,250	1,090
14	Alberta	125	870	743	920	860
15	British Columbia	19	46	68	73	96
16	Sub-Total	*3,396*	*9,243*	*10,011*	*11,463*	*10,898*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	180	275	330	325	340
19	New Brunswick	60	200	320	330	330
20	Quebec	150	250	300	300	300
21	Ontario	110	250	275	325	210
22	Manitoba	75	125	175	150	70
23	Saskatchewan	—	50	50	80	40
24	Alberta	—	60	75	75	60
25	British Columbia	16	44	42	32	46
26	Sub-Total	*591*	*1,254*	*1,567*	*1,617*	*1,396*
	TOTAL—					
27	Prince Edward Island	30	80	80	100	115
28	Nova Scotia	577	1,102	1,425	1,430	1,476
29	New Brunswick	535	1,440	1,620	1,680	1,781
30	Quebec	1,450	3,300	4,275	5,440	4,744
31	Ontario	3,160	8,960	7,754	9,485	8,760
32	Manitoba	500	900	1,000	1,060	1,130
33	Saskatchewan	100	1,130	1,175	1,330	1,130
34	Alberta	125	930	818	995	920
35	British Columbia	40	114	250	240	281
36	Total—Other Taxes	**6,517**	**17,956**	**18,397**	**21,760**	**20,337**

MUNICIPAL GOVERNMENTS

TABLE 60

REVENUE — CURRENT ACCOUNT

(Continued)

TOTAL TAXES

Thousands of Dollars

Item No.	*For the fiscal years* ⟶	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	11,000	22,800	29,130	38,844	45,693
2	Ontario (Toronto)	10,001	27,179	32,301	41,085	43,020
3	(Windsor)	499	2,574	5,077	7,644	4,327
4	Manitoba (Winnipeg)	5,572	11,161	10,934	12,451	10,691
5	British Columbia (Vancouver)	5,444	8,460	9,739	14,289	12,330
6	Sub-Total	*32,516*	*72,174*	*87,181*	*114,313*	*116,061*
	OTHER URBAN—					
7	Prince Edward Island	120	280	331	380	422
8	Nova Scotia	1,730	4,580	4,995	5,184	5,634
9	New Brunswick	1,300	3,040	3,745	3,730	4,517
10	Quebec	3,700	10,900	13,220	15,210	17,750
11	Ontario	14,610	33,889	41,830	48,726	49,284
12	Manitoba	1,500	2,000	1,906	1,909	1,691
13	Saskatchewan	5,718	9,427	8,624	9,439	8,443
14	Alberta	8,167	11,040	11,287	12,713	11,048
15	British Columbia	2,980	3,323	3,516	3,630	3,575
16	Sub-Total	*39,825*	*78,479*	*89,454*	*100,921*	*102,364*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	900	1,868	2,093	2,185	2,470
19	New Brunswick	340	1,020	1,600	1,650	1,730
20	Quebec	3,200	6,650	7,500	8,140	7,840
21	Ontario	9,121	19,376	22,938	25,276	19,874
22	Manitoba	3,050	7,020	5,700	6,700	5,010
23	Saskatchewan	4,546	13,021	12,546	14,297	8,202
24	Alberta	1,755	6,388	9,620	7,485	6,081
25	British Columbia	1,616	1,689	1,683	1,807	1,923
26	Sub-Total	*24,528*	*57,032*	*63,680*	*67,540*	*53,130*
	TOTAL—					
27	Prince Edward Island	120	280	331	380	422
28	Nova Scotia	2,630	6,448	7,088	7,369	8,104
29	New Brunswick	1,640	4,060	5,345	5,380	6,247
30	Quebec	17,900	40,350	49,850	62,194	71,283
31	Ontario	34,231	83,018	102,146	122,731	116,505
32	Manitoba	10,122	20,181	18,540	21,060	17,392
33	Saskatchewan	10,264	22,448	21,170	23,736	16,645
34	Alberta	9,922	17,428	20,907	20,198	17,129
35	British Columbia	10,040	13,472	14,938	19,726	17,828
36	TOTAL—TAXES	**96,869**	**207,685**	**240,315**	**282,774**	**271,555**

MUNICIPAL GOVERNMENTS

TABLE 60 *(Continued)*

REVENUE — CURRENT ACCOUNT

LICENCES, PERMITS, FEES, ETC.

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	700	1,500	1,800	2,015	2,500
2	Ontario (Toronto)	1,375	700	850	825	869
3	(Windsor)	19	125	175	210	150
4	Manitoba (Winnipeg)	200	325	350	325	400
5	British Columbia (Vancouver)	312	498	665	704	668
6	Sub-Total	*2,606*	*3,148*	*3,840*	*4,079*	*4,587*
	OTHER URBAN—					
7	Prince Edward Island	22	28	30	30	30
8	Nova Scotia	100	104	107	111	110
9	New Brunswick	35	55	75	100	104
10	Quebec	325	500	700	802	850
11	Ontario	737	1,175	1,450	1,700	1,200
12	Manitoba	50	175	200	175	200
13	Saskatchewan	50	615	995	1,234	1,174
14	Alberta	350	515	440	490	398
15	British Columbia	198	242	289	294	350
16	Sub-Total	*1,867*	*3,409*	*4,286*	*4,936*	*4,416*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	10	15	10	6	6
19	New Brunswick	—	—	1	2	2
20	Quebec	125	200	250	250	260
21	Ontario	300	200	400	700	600
22	Manitoba	50	100	100	100	100
23	Saskatchewan	—	839	645	1,056	345
24	Alberta	20	60	70	75	50
25	British Columbia	26	39	75	90	88
26	Sub-Total	*531*	*1,453*	*1,551*	*2,279*	*1,451*
	TOTAL—					
27	Prince Edward Island	22	28	30	30	30
28	Nova Scotia	110	119	117	117	116
29	New Brunswick	35	55	76	102	106
30	Quebec	1,150	2,200	2,750	3,067	3,610
31	Ontario	2,431	2,200	2,875	3,435	2,819
32	Manitoba	300	600	650	600	700
33	Saskatchewan	50	1,454	1,640	2,290	1,519
34	Alberta	370	575	510	565	448
35	British Columbia	536	779	1,029	1,088	1,106
36	TOTAL—LICENCES, PERMITS AND FEES	**5,004**	**8,010**	**9,677**	**11,294**	**10,454**

MUNICIPAL GOVERNMENTS

TABLE 60 *(Continued)*

REVENUE — CURRENT ACCOUNT

PUBLIC UTILITY CONTRIBUTIONS

Thousands of Dollars

Item No.	*For the fiscal years* ⟶	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	—	—	—	—	900
2	Ontario (Toronto)	?	—	753	465	624
3	(Windsor)	?	—	—	—	—
4	Manitoba (Winnipeg)	50	100	150	125	350
5	British Columbia (Vancouver)	—	—	—	—	309
6	Sub-Total	*50*	*100*	*903*	*590*	*2,183*
	OTHER URBAN—					
7	Prince Edward Island	—	—	—	—	—
8	Nova Scotia	—	—	—	69	181
9	New Brunswick	—	—	—	—	—
10	Quebec	—	—	—	—	—
11	Ontario	?	470	480	510	440
12	Manitoba	25	50	100	100	125
13	Saskatchewan	—	—	548	827	1,019
14	Alberta	205	485	785	1,050	1,798
15	British Columbia	—	—	—	—	379
16	Sub-Total	*230*	*1,005*	*1,913*	*2,556*	*3,942*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	—	—	—	—	—
19	New Brunswick	—	—	—	—	—
20	Quebec	—	—	—	—	—
21	Ontario	?	—	—	—	—
22	Manitoba	25	50	50	25	50
23	Saskatchewan	—	—	—	—	—
24	Alberta	—	—	—	—	—
25	British Columbia	—	—	—	—	—
26	Sub-Total	*25*	*50*	*50*	*25*	*50*
	TOTAL—					
27	Prince Edward Island	—	—	—	—	—
28	Nova Scotia	—	—	—	69	181
29	New Brunswick	—	—	—	—	—
30	Quebec	—	—	—	—	900
31	Ontario	?	470	1,233	975	1,064
32	Manitoba	100	200	300	250	525
33	Saskatchewan	—	—	548	827	1,019
34	Alberta	205	485	785	1,050	1,798
35	British Columbia	—	—	—	—	688
36	TOTAL—PUBLIC UTILITY CONTRIBUTIONS	**305**	**1,155**	**2,866**	**3,171**	**6,175**

MUNICIPAL GOVERNMENTS

TABLE 60 *(Continued)*

REVENUE—CURRENT ACCOUNT

OTHER CURRENT REVENUE

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	1,400	2,100	4,500	5,490	7,200
2	Ontario (Toronto)	914	1,300	1,600	1,675	1,298
3	(Windsor)	5	90	100	250	300
4	Manitoba (Winnipeg)	300	400	750	700	700
5	British Columbia (Vancouver)	557	1,163	1,148	1,098	946
6	Sub-Total	*3,176*	*5,053*	*8,098*	*9,213*	*10,444*
	OTHER URBAN—					
7	Prince Edward Island	12	16	19	19	20
8	Nova Scotia	106	168	266	191	246
9	New Brunswick	90	120	150	190	175
10	Quebec	350	650	825	1,010	1,075
11	Ontario	994	1,650	2,100	2,400	1,950
12	Manitoba	150	200	300	275	300
13	Saskatchewan	200	438	575	493	777
14	Alberta	566	880	1,137	1,097	931
15	British Columbia	295	360	512	570	293
16	Sub-Total	*2,763*	*4,482*	*5,884*	*6,245*	*5,767*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	150	337	307	555	528
19	New Brunswick	40	50	54	63	57
20	Quebec	100	150	200	200	200
21	Ontario	510	1,500	1,700	1,900	1,700
22	Manitoba	250	350	450	425	450
23	Saskatchewan	300	916	719	839	1,274
24	Alberta	260	500	350	183	283
25	British Columbia	148	199	212	293	178
26	Sub-Total	*1,758*	*4,002*	*3,992*	*4,458*	*4,670*
	TOTAL—					
27	Prince Edward Island	12	16	19	19	20
28	Nova Scotia	256	505	573	746	774
29	New Brunswick	130	170	204	253	232
30	Quebec	1,850	2,900	5,525	6,700	8,475
31	Ontario	2,423	4,540	5,500	6,225	5,248
32	Manitoba	700	950	1,500	1,400	1,450
33	Saskatchewan	500	1,354	1,294	1,332	2,051
34	Alberta	826	1,380	1,487	1,280	1,214
35	British Columbia	1,000	1,722	1,872	1,961	1,417
36	TOTAL—OTHER CURRENT REVENUE	**7,697**	**13,537**	**17,974**	**19,916**	**20,881**

MUNICIPAL GOVERNMENTS

TABLE 60 (*Concluded*)

TOTAL REVENUE—CURRENT ACCOUNT

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	13,100	26,400	35,430	46,349	56,293
2	Ontario (Toronto)	12,290	29,179	35,504	44,050	45,811
3	(Windsor)	523	2,789	5,352	8,104	4,777
4	Manitoba (Winnipeg)	6,122	11,986	12,184	13,601	12,141
5	British Columbia (Vancouver)	6,313	10,121	11,552	16,091	14,253
6	Sub-Total	*38,348*	*80,475*	*100,022*	*128,195*	*133,275*
	OTHER URBAN—					
7	Prince Edward Island	154	324	380	429	472
8	Nova Scotia	1,936	4,852	5,368	5,555	6,171
9	New Brunswick	1,425	3,215	3,970	4,020	4,796
10	Quebec	4,375	12,050	14,745	17,022	19,675
11	Ontario	16,341	37,184	45,860	53,336	52,874
12	Manitoba	1,725	2,425	2,506	2,459	2,316
13	Saskatchewan	5,968	10,480	10,742	11,993	11,413
14	Alberta	9,288	12,920	13,649	15,350	14,175
15	British Columbia	3,473	3,925	4,317	4,494	4,597
16	Sub-Total	*44,685*	*87,375*	*101,537*	*114,658*	*116,489*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	1,060	2,220	2,410	2,746	3,004
19	New Brunswick	380	1,070	1,655	1,715	1,789
20	Quebec	3,425	7,000	7,950	8,590	8,300
21	Ontario	9,931	21,076	25,038	27,876	22,174
22	Manitoba	3,375	7,520	6,300	7,250	5,610
23	Saskatchewan	4,846	14,776	13,910	16,192	9,821
24	Alberta	2,035	6,948	10,040	7,743	6,414
25	British Columbia	1,790	1,927	1,970	2,190	2,189
26	Sub-Total	*26,842*	*62,537*	*69,273*	*74,302*	*59,301*
	TOTAL—					
27	Prince Edward Island	154	324	380	429	472
28	Nova Scotia	2,996	7,072	7,778	8,301	9,175
29	New Brunswick	1,805	4,285	5,625	5,735	6,585
30	Quebec	20,900	45,450	58,125	71,961	84,268
31	Ontario	39,085	90,228	111,754	133,366	125,636
32	Manitoba	11,222	21,931	20,990	23,310	20,067
33	Saskatchewan	10,814	25,256	24,652	28,185	21,234
34	Alberta	11,323	19,868	23,689	23,093	20,589
35	British Columbia	11,576	15,973	17,839	22,775	21,039
36	TOTAL—CURRENT REVENUE	**109,875**	**230,387**	**270,832**	**317,155**	**309,065**

MUNICIPAL GOVERNMENTS

TABLE 61

REVENUE — PROVINCIAL GRANTS

Not included in revenue totals, but deducted from corresponding expenditures

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	46	102	139	107	156
2	Ontario (Toronto)	69	200	400	1,060	2,033
3	(Windsor)	5	40	100	125	178
4	Manitoba (Winnipeg)	75	201	503	305	250
5	British Columbia (Vancouver)	320	686	1,588	1,727	1,112
6	Sub-Total	*515*	*1,229*	*2,730*	*3,324*	*3,729*
	OTHER URBAN—					
7	Prince Edward Island	1	1	1	1	7
8	Nova Scotia	—	—	—	—	—
9	New Brunswick	—	—	—	40	78
10	Quebec	222	305	520	508	924
11	Ontario	408	650	1,635	1,855	3,008
12	Manitoba	75	200	315	380	275
13	Saskatchewan	125	676	1,052	1,353	769
14	Alberta	166	557	615	666	610
15	British Columbia	247	414	784	895	645
16	Sub-Total	*1,244*	*2,803*	*4,922*	*5,698*	*6,316*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	—	—	—	—	—
19	New Brunswick	—	—	—	—	—
20	Quebec	282	1,050	935	853	1,264
21	Ontario	614	1,931	4,407	5,259	5,038
22	Manitoba	413	552	987	706	474
23	Saskatchewan	597	862	1,214	1,411	979
24	Alberta	342	590	523	928	780
25	British Columbia	191	286	567	673	465
26	Sub-Total	*2,439*	*5,271*	*8,633*	*9,830*	*9,000*
	TOTAL—					
27	Prince Edward Island	1	1	1	1	7
28	Nova Scotia	—	—	—	—	—
29	New Brunswick	—	—	—	40	78
30	Quebec	550	1,457	1,594	1,468	2,344
31	Ontario	1,096	2,821	6,542	8,299	10,257
32	Manitoba	563	953	1,805	1,391	999
33	Saskatchewan	722	1,538	2,266	2,764	1,748
34	Alberta	508	1,147	1,138	1,594	1,390
35	British Columbia	758	1,386	2,939	3,295	2,222
36	TOTAL—PROVINCIAL GRANTS	**4,198**	**9,303**	**16,285**	**18,852**	**19,045**

MUNICIPAL GOVERNMENTS

TABLE 62

EXPENDITURE — CURRENT ACCOUNT

NET DEBT SERVICE

Thousands of Dollars

Item No.	For the fiscal years →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	3,450	7,900	10,680	13,400	18,200
2	Ontario (Toronto)	2,390	4,700	5,750	7,900	6,811
3	(Windsor)	70	525	1,200	1,925	779
4	Manitoba (Winnipeg)	1,525	2,880	3,195	3,425	2,891
5	British Columbia (Vancouver)	1,946	2,419	2,521	3,693	3,349
6	Sub-Total	*9,381*	*18,424*	*23,346*	*30,343*	*32,030*
	OTHER URBAN—					
7	Prince Edward Island	25	55	58	75	115
8	Nova Scotia	463	563	796	1,007	1,143
9	New Brunswick	230	335	475	610	816
10	Quebec	845	2,150	3,225	3,825	4,060
11	Ontario	2,990	6,110	7,300	8,800	7,550
12	Manitoba	195	345	320	300	295
13	Saskatchewan	1,210	1,761	1,923	2,087	1,956
14	Alberta	2,084	2,847	2,973	3,139	2,088
15	British Columbia	723	1,029	891	976	770
16	Sub-Total	*8,765*	*15,195*	*17,961*	*20,819*	*18,793*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	30	99	101	97	115
19	New Brunswick	20	50	100	100	270
20	Quebec	225	250	265	610	480
21	Ontario	560	1,365	1,900	2,200	1,440
22	Manitoba	135	330	490	500	565
23	Saskatchewan	325	845	530	710	763
24	Alberta	112	115	85	190	225
25	British Columbia	160	271	184	171	132
26	Sub-Total	*1,567*	*3,325*	*3,655*	*4,578*	*3,990*
	TOTAL—					
27	Prince Edward Island	25	55	58	75	115
28	Nova Scotia	493	662	897	1,104	1,258
29	New Brunswick	250	385	575	710	1,086
30	Quebec	4,520	10,300	14,170	17,835	22,740
31	Ontario	6,010	12,700	16,150	20,825	16,580
32	Manitoba	1,855	3,555	4,005	4,225	3,751
33	Saskatchewan	1,535	2,606	2,453	2,797	2,719
34	Alberta	2,196	2,962	3,058	3,329	2,313
35	British Columbia	2,829	3,719	3,596	4,840	4,251
36	TOTAL NET DEBT SERVICE, excluding debt retirement	**19,713**	**36,944**	**44,962**	**55,740**	**54,813**

MUNICIPAL GOVERNMENTS

TABLE 62 (*Continued*)

EXPENDITURE — CURRENT ACCOUNT

EDUCATION

Thousands of Dollars

Item No.	For the fiscal years →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	2,229	5,718	7,902	8,679	9,210
2	Ontario (Toronto)	2,386	6,600	8,250	10,235	11,428
3	(Windsor)	128	635	1,100	1,730	1,363
4	Manitoba (Winnipeg)	825	2,570	2,920	3,250	2,968
5	British Columbia (Vancouver)	737	2,008	2,450	3,306	3,252
6	Sub-Total	*6,305*	*17,531*	*22,622*	*27,200*	*28,221*
	OTHER URBAN—					
7	Prince Edward Island	65	152	172	190	199
8	Nova Scotia	580	1,696	1,734	1,729	1,734
9	New Brunswick	385	920	1,185	1,155	1,212
10	Quebec	1,233	3,142	3,780	3,395	3,818
11	Ontario	4,862	9,940	14,833	15,805	14,080
12	Manitoba	500	655	605	610	508
13	Saskatchewan	1,337	3,848	3,961	3,545	3,042
14	Alberta	1,899	3,950	4,423	4,887	4,127
15	British Columbia	382	977	1,116	1,297	1,145
16	Sub-Total	*11,243*	*25,280*	*31,809*	*32,613*	*29,865*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	497	1,350	1,306	1,133	1,200
19	New Brunswick	230	470	975	975	732
20	Quebec	1,643	2,975	3,445	3,162	3,488
21	Ontario	3,853	7,175	8,318	6,831	5,872
22	Manitoba	1,038	2,988	2,899	2,764	1,760
23	Saskatchewan	1,287	5,356	5,490	5,565	1,990
24	Alberta	1,266	2,647	2,780	3,658	2,683
25	British Columbia	338	508	638	804	695
26	Sub-Total	*10,152*	*23,469*	*25,851*	*24,892*	*18,420*
	TOTAL—					
27	Prince Edward Island	65	152	172	190	199
28	Nova Scotia	1,077	3,046	3,040	2,862	2,934
29	New Brunswick	615	1,390	2,160	2,130	1,944
30	Quebec	5,105	11,835	15,127	15,236	16,516
31	Ontario	11,229	24,350	32,501	34,601	32,743
32	Manitoba	2,363	6,213	6,424	6,624	5,236
33	Saskatchewan	2,624	9,204	9,451	9,110	5,032
34	Alberta	3,165	6,597	7,203	8,545	6,810
35	British Columbia	1,457	3,493	4,204	5,407	5,092
36	TOTAL—EDUCATION	**27,700**	**66,280**	**80,282**	**84,705**	**76,506**

MUNICIPAL GOVERNMENTS

TABLE 62 (*Continued*)

EXPENDITURE—CURRENT ACCOUNT

PUBLIC WELFARE

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	1,500	2,050	3,200	4,600	11,700
2	Ontario (Toronto)	1,002	4,500	4,400	6,300	8,799
3	(Windsor)	14	75	375	640	936
4	Manitoba (Winnipeg)	1,000	1,300	1,300	2,000	3,380
5	British Columbia (Vancouver)	900	858	834	1,464	2,972
6	Sub-Total	*4,416*	*8,783*	*10,109*	*15,004*	*27,787*
	OTHER URBAN—					
7	Prince Edward Island	5	8	10	15	50
8	Nova Scotia	194	369	506	678	1,079
9	New Brunswick	140	550	580	475	749
10	Quebec	300	600	800	1,150	2,300
11	Ontario	787	3,900	3,538	6,400	8,252
12	Manitoba	100	100	100	200	270
13	Saskatchewan	325	910	934	1,645	2,382
14	Alberta	425	693	865	1,180	2,569
15	British Columbia	260	257	246	325	738
16	Sub-Total	*2,536*	*7,387*	*7,579*	*12,068*	*18,389*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	246	386	467	560	750
19	New Brunswick	75	250	250	250	248
20	Quebec	125	175	200	300	700
21	Ontario	347	1,000	1,000	1,500	2,350
22	Manitoba	100	100	125	200	560
23	Saskatchewan	175	391	573	1,058	1,251
24	Alberta	75	246	289	432	979
25	British Columbia	66	68	94	138	209
26	Sub-Total	*1,209*	*2,616*	*2,998*	*4,438*	*7,047*
	TOTAL—					
27	Prince Edward Island	5	8	10	15	50
28	Nova Scotia	440	755	973	1,238	1,829
29	New Brunswick	215	800	830	725	997
30	Quebec	1,925	2,825	4,200	6,050	14,700
31	Ontario	2,150	9,475	9,313	14,840	20,337
32	Manitoba	1,200	1,500	1,525	2,400	4,210
33	Saskatchewan	500	1,301	1,507	2,703	3,633
34	Alberta	500	939	1,154	1,612	3,548
35	British Columbia	1,226	1,183	1,174	1,927	3,919
36	TOTAL—PUBLIC WELFARE	**8,161**	**18,786**	**20,686**	**31,510**	**53,223**

MUNICIPAL GOVERNMENTS

TABLE 62 *(Continued)*

EXPENDITURE — CURRENT ACCOUNT

STREETS AND ROADS

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	1,900	2,000	3,000	4,300	3,300
2	Ontario (Toronto)	950	2,500	2,900	3,405	2,219
3	(Windsor)	100	350	500	495	278
4	Manitoba (Winnipeg)	450	799	698	995	770
5	British Columbia (Vancouver)	950	1,416	1,377	1,625	781
6	Sub-Total	*4,350*	*7,065*	*8,475*	*10,820*	*7,348*
	OTHER URBAN—					
7	Prince Edward Island	25	40	45	58	70
8	Nova Scotia	310	753	462	1,030	487
9	New Brunswick	285	480	515	575	462
10	Quebec	775	1,950	2,400	2,900	3,050
11	Ontario	1,650	3,500	3,982	5,200	4,300
12	Manitoba	175	275	248	255	210
13	Saskatchewan	290	509	482	770	487
14	Alberta	500	1,005	654	1,084	1,145
15	British Columbia	445	526	495	524	425
16	Sub-Total	*4,455*	*9,038*	*9,283*	*12,396*	*10,636*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	—	—	—	—	—
19	New Brunswick	—	—	—	—	—
20	Quebec	650	1,900	2,000	2,000	1,500
21	Ontario	2,500	6,979	7,350	8,700	6,752
22	Manitoba	264	1,295	1,057	1,705	1,023
23	Saskatchewan	1,280	2,001	2,000	2,398	1,064
24	Alberta	700	2,111	2,779	3,520	1,680
25	British Columbia	500	573	506	620	556
26	Sub-Total	*5,894*	*14,859*	*15,692*	*18,943*	*12,575*
	TOTAL—					
27	Prince Edward Island	25	40	45	58	70
28	Nova Scotia	310	753	462	1,030	487
29	New Brunswick	285	480	515	575	462
30	Quebec	3,325	5,850	7,400	9,200	7,850
31	Ontario	5,200	13,329	14,732	17,800	13,549
32	Manitoba	889	2,369	2,003	2,955	2,003
33	Saskatchewan	1,570	2,510	2,482	3,168	1,551
34	Alberta	1,200	3,116	3,433	4,604	2,825
35	British Columbia	1,895	2,515	2,378	2,769	1,762
36	TOTAL—HIGHWAYS	**14,699**	**30,962**	**33,450**	**42,159**	**30,559**

MUNICIPAL GOVERNMENTS

TABLE 62 (*Continued*)

EXPENDITURE — CURRENT ACCOUNT

ALL OTHER EXPENDITURES

Thousands of Dollars

Item No.	*For the fiscal years* →	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	4,000	6,480	7,985	11,600	13,480
2	Ontario (Toronto)	3,600	8,500	10,000	11,000	9,091
3	(Windsor)	125	350	1,300	1,800	1,048
4	Manitoba (Winnipeg)	2,100	2,500	2,549	3,000	2,700
5	British Columbia (Vancouver)	2,200	3,056	2,741	4,111	4,430
6	Sub-Total	*12,025*	*20,886*	*24,575*	*31,511*	*30,749*
	OTHER URBAN—					
7	Prince Edward Island	29	54	64	79	83
8	Nova Scotia	464	1,122	1,149	1,229	1,491
9	New Brunswick	340	825	1,065	975	836
10	Quebec	1,175	2,898	3,250	3,900	3,928
11	Ontario	4,500	9,300	11,300	11,500	10,423
12	Manitoba	700	900	862	800	700
13	Saskatchewan	2,300	2,376	2,656	2,985	2,687
14	Alberta	1,537	2,017	2,222	2,427	2,580
15	British Columbia	1,100	1,312	1,214	1,096	1,443
16	Sub-Total	*12,145*	*20,804*	*23,782*	*24,991*	*24,171*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	150	323	323	377	491
19	New Brunswick	75	250	275	300	331
20	Quebec	750	1,050	1,465	2,000	1,764
21	Ontario	1,600	4,500	5,200	6,000	4,268
22	Manitoba	1,000	1,300	872	1,355	1,300
23	Saskatchewan	1,400	1,379	3,384	3,794	2,152
24	Alberta	450	785	748	890	1,047
25	British Columbia	530	634	307	396	663
26	Sub-Total	*5,955*	*10,221*	*12,574*	*15,112*	*12,016*
	TOTAL—					
27	Prince Edward Island	29	54	64	79	83
28	Nova Scotia	614	1,445	1,472	1,606	1,982
29	New Brunswick	415	1,075	1,340	1,275	1,167
30	Quebec	5,925	10,428	12,700	17,500	19,172
31	Ontario	9,825	22,650	27,800	30,300	24,830
32	Manitoba	3,800	4,700	4,283	5,155	4,700
33	Saskatchewan	3,700	3,755	6,040	6,779	4,839
34	Alberta	1,987	2,802	2,970	3,317	3,627
35	British Columbia	3,830	5,002	4,262	5,603	6,536
36	TOTAL—ALL OTHER EXPENDITURES	**30,125**	**51,911**	**60,931**	**71,614**	**66,936**

MUNICIPAL GOVERNMENTS

TABLE 62 (*Concluded*)

TOTAL EXPENDITURE — CURRENT ACCOUNT

(EXCLUDING DEBT RETIREMENT)

Thousands of Dollars

Item No.	*For the fiscal years* ⟶	1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	13,079	24,148	32,767	42,579	55,890
2	Ontario (Toronto)	10,328	26,800	31,300	38,840	38,348
3	(Windsor)	437	1,935	4,475	6,590	4,404
4	Manitoba (Winnipeg)	5,900	10,049	10,662	12,670	12,709
5	British Columbia (Vancouver)	6,733	9,757	9,923	14,199	14,784
6	Sub-Total	*36,477*	*72,689*	*89,127*	*114,878*	*126,135*
	OTHER URBAN—					
7	Prince Edward Island	149	309	349	417	517
8	Nova Scotia	2,011	4,503	4,647	5,673	5,934
9	New Brunswick	1,380	3,110	3,820	3,790	4,075
10	Quebec	4,328	10,740	13,455	15,170	17,156
11	Ontario	14,789	32,750	40,953	47,705	44,605
12	Manitoba	1,670	2,275	2,135	2,165	1,983
13	Saskatchewan	5,462	9,404	9,956	11,032	10,554
14	Alberta	6,445	10,512	11,137	12,717	12,509
15	British Columbia	2,910	4,101	3,962	4,218	4,521
16	Sub-Total	*39,144*	*77,704*	*90,414*	*102,887*	*101,854*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	923	2,158	2,197	2,167	2,556
19	New Brunswick	400	1,020	1,600	1,625	1,581
20	Quebec	3,393	6,350	7,375	8,072	7,932
21	Ontario	8,860	21,019	23,768	25,231	20,682
22	Manitoba	2,537	6,013	5,443	6,524	5,208
23	Saskatchewan	4,467	9,972	11,977	13,525	7,220
24	Alberta	2,603	5,904	6,681	8,690	6,614
25	British Columbia	1,594	2,054	1,729	2,129	2,255
26	Sub-Total	*24,777*	*54,490*	*60,770*	*67,963*	*54,048*
	TOTAL—					
27	Prince Edward Island	149	309	349	417	517
28	Nova Scotia	2,934	6,661	6,844	7,840	8,490
29	New Brunswick	1,780	4,130	5,420	5,415	5,656
30	Quebec	20,800	41,238	53,597	65,821	80,978
31	Ontario	34,414	82,504	100,496	118,366	108,039
32	Manitoba	10,107	18,337	18,240	21,359	19,900
33	Saskatchewan	9,929	19,376	21,933	24,557	17,774
34	Alberta	9,048	16,416	17,818	21,407	19,123
35	British Columbia	11,237	15,912	15,614	20,546	21,560
36	TOTAL—EXPENDITURE (excluding debt retirement)	**100,398**	**204,883**	**240,311**	**285,728**	**282,037**

MUNICIPAL GOVERNMENTS

TABLE 63

DEBT RETIREMENT (1)

Thousands of Dollars

Item No.		For the fiscal years ended nearest to December 31				
		1913	1921	1926	1930	1937
	METROPOLITAN—					
1	Quebec (Montreal)	275	2,250	2,730	3,650	6,000
2	Ontario (Toronto)	910	2,400	3,900	5,700	7,216
3	(Windsor)	30	250	700	1,475	—
4	Manitoba (Winnipeg)	525	1,080	1,475	1,125	1,024
5	British Columbia (Vancouver)	628	1,109	878	1,314	626
6	Sub-Total	*2,368*	*7,089*	*9,683*	*13,264*	*14,866*
	OTHER URBAN—					
7	Prince Edward Island	5	15	17	25	15
8	Nova Scotia	117	271	364	398	500
9	New Brunswick	70	120	140	210	275
10	Quebec	190	655	1,065	1,536	2,100
11	Ontario	1,305	3,150	4,450	5,906	6,975
12	Manitoba	80	120	115	115	90
13	Saskatchewan	515	809	980	964	730
14	Alberta	666	1,007	1,184	1,300	969
15	British Columbia	433	798	562	578	361
16	Sub-Total	*3,381*	*6,945*	*8,877*	*11,032*	*12,015*
	RURAL—					
17	Prince Edward Island	—	—	—	—	—
18	Nova Scotia	15	40	71	50	50
19	New Brunswick	—	—	30	30	78
20	Quebec	40	75	90	375	380
21	Ontario	230	550	1,025	1,750	1,450
22	Manitoba	50	130	260	280	280
23	Saskatchewan	208	292	381	354	15
24	Alberta	214	212	154	182	70
25	British Columbia	69	97	85	59	56
26	Sub-Total	*826*	*1,396*	*2,096*	*3,080*	*2,379*
	TOTAL—					
27	Prince Edward Island	5	15	17	25	15
28	Nova Scotia	132	311	435	448	550
29	New Brunswick	70	120	170	240	353
30	Quebec	505	2,980	3,885	5,561	8,480
31	Ontario	2,475	6,350	10,075	14,831	15,641
32	Manitoba	655	1,330	1,850	1,520	1,394
33	Saskatchewan	723	1,101	1,361	1,318	745
34	Alberta	880	1,219	1,338	1,482	1,039
35	British Columbia	1,130	2,004	1,525	1,951	1,043
36	TOTAL	**6,575**	**15,430**	**20,656**	**27,376**	**29,260**

(1) Sinking Fund or Debt Retirement provisions.

PART B

CONTENTS

British North America Act and Amendments
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THE BRITISH NORTH AMERICA ACT, 1867
30 VICTORIA, CHAPTER 3

An Act for the Union of Canada, Nova Scotia, and New Brunswick, and the Government thereof; and for Purposes connected therewith.

[*29th March, 1867.*]

Whereas the Provinces of Canada, Nova Scotia, and New Brunswick have expressed their Desire to be federally united into One Dominion under the Crown of the United Kingdom of Great Britain and Ireland, with a Constitution similar in Principle to that of the United Kingdom:

And whereas such a Union would conduce to the Welfare of the Provinces and promote the Interests of the British Empire:

And whereas on the Establishment of the Union by Authority of Parliament it is expedient, not only that the Constitution of the Legislative Authority in the Dominion be provided for, but also that the Nature of the Executive Government therein be declared:

And whereas it is expedient that Provision be made for the eventual admission into the Union of other Parts of British North America:

Be it therefore enacted and declared by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows:

I. Preliminary

1. This Act may be cited as the British North America Act, 1867.

2. The Provisions of this Act referring to Her Majesty the Queen extend also to the Heirs and Successors of Her Majesty, Kings and Queens of the United Kingdom of Great Britain and Ireland.

II. Union

3. It shall be lawful for the Queen, by and with the Advice of Her Majesty's Most Honourable Privy Council, to declare by Proclamation that, on and after a Day therein appointed, not being more than Six Months after the passing of this Act, the Provinces of Canada, Nova Scotia, and New Brunswick shall form and be One Dominion under the Name of Canada; and on and after that Day those Three Provinces shall form and be One Dominion under that Name accordingly.

4. The subsequent Provisions of this Act shall, unless it is otherwise expressed or implied, commence and have effect on and after the Union, that is to say, on and after the Day appointed for the Union taking effect in the Queen's Proclamation; and in the same Provisions, unless it is otherwise expressed or implied, the Name Canada shall be taken to mean Canada as constituted under this Act.

5. Canada shall be divided into Four Provinces, named Ontario, Quebec, Nova Scotia, and New Brunswick.

6. The Parts of the Province of Canada (as it exists at the passing of this Act) which formerly constituted respectively the Provinces of Upper Canada and Lower Canada shall be deemed to be severed, and shall form two separate Provinces. The Part which formerly constituted the Province of Upper Canada shall constitute the Province of Ontario; and the Part which formerly constituted the Province of Lower Canada shall constitute the Province of Quebec.

7. The Provinces of Nova Scotia and New Brunswick shall have the same Limits as at the passing of this Act.

8. In the general Census of the Population of Canada which is hereby required to be taken in the Year One thousand eight hundred and seventy-one, and in every Tenth Year thereafter, the respective Populations of the Four Provinces shall be distinguished.

III. Executive Power

9. The Executive Government and Authority of and over Canada is hereby declared to continue and be vested in the Queen.

10. The Provisions of this Act referring to the Governor General extend and apply to the Governor General for the Time being of Canada, or other the Chief Executive Officer or Administrator for the Time being carrying on the Government of Canada on behalf and in the Name of the Queen, by whatever Title he is designated.

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11. There shall be a Council to aid and advise in the Government of Canada, to be styled the Queen's Privy Council for Canada; and the Persons who are to be members of that Council shall be from Time to Time chosen and summoned by the Governor General and sworn in as Privy Councillors, and Members thereof may be from Time to Time removed by the Governor General.

12. All powers, Authorities, and Functions which under any Act of the Parliament of Great Britain, or of the Parliament of the United Kingdom of Great Britain and Ireland, or of the Legislature of Upper Canada, Lower Canada, Canada, Nova Scotia, or New Brunswick, are at the Union vested in or exerciseable by the respective Governors or Lieutenant Governors of those Provinces, with the Advice, or with the Advice and Consent, of the respective Executive Councils thereof, or in conjunction with those Councils, or with any Number of Members thereof, or by those Governors or Lieutenant-Governors individually, shall, as far as the same continue in existence and capable of being exercised after the Union in relation to the Government of Canada, be vested in and exerciseable by the Governor General, with the Advice or with the Advice and Consent of or in conjunction with the Queen's Privy Council for Canada, or any Members thereof, or by the Governor General individually, as the Case requires, subject nevertheless (except with respect to such as exist under Acts of the Parliament of Great Britain or of the Parliament of the United Kingdom of Great Britain and Ireland) to be abolished or altered by the Parliament of Canada.

13. The Provisions of this Act referring to the Governor General in Council shall be construed as referring to the Governor General acting by and with the Advice of the Queen's Privy Council for Canada.

14. It shall be lawful for the Queen, if Her Majesty thinks fit, to authorize the Governor General from Time to Time to appoint any Person or any Persons jointly or severally to be his Deputy or Deputies within any Part or Parts of Canada, and in that Capacity to exercise during the Pleasure of the Governor General such of the Powers, Authorities, and Functions of the Governor General as the Governor General deems it necessary or expedient to assign to him or them, subject to any Limitations or Directions expressed or given by the Queen; but the Appointment of such a Deputy or Deputies shall not affect the Exercise by the Governor General himself of any Power, Authority, or Function.

15. The Command-in-Chief of the Land and Naval Militia, and of all Naval and Military Forces, of and in Canada, is hereby declared to continue and be vested in the Queen.

16. Until the Queen otherwise directs the Seat of Government of Canada shall be Ottawa.

IV. Legislative Power

17. There shall be One Parliament for Canada, consisting of the Queen, an Upper House styled the Senate, and the House of Commons.

18. The Privileges, Immunities, and Powers to be held, enjoyed, and exercised by the Senate and by the House of Commons and by the Members thereof respectively shall be such as are from Time to Time defined by Act of the Parliament of Canada, but so that the same shall never exceed those at the passing of this Act held, enjoyed, and exercised by the Commons House of Parliament of the United Kingdom of Great Britain and Ireland and by the Members thereof.

19. The Parliament of Canada shall be called together not later than Six Months after the Union.

20. There shall be a Session of the Parliament of Canada once at least in every Year, so that Twelve Months shall not intervene between the last Sitting of the Parliament in one Session and its first Sitting in the next Session.

The Senate

21. The Senate shall, subject to the Provisions of this Act, consist of Seventy-two Members, who shall be styled Senators.

22. In relation to the Constitution of the Senate, Canada shall be deemed to consist of Three Divisions:

1. Ontario;
2. Quebec;
3. The Maritime Provinces, Nova Scotia and New Brunswick; which Three Divisions shall (subject to the Provisions of this Act) be equally represented in the Senate as follows: Ontario by Twenty-four Senators; Quebec by Twenty-four Senators; and the Maritime Provinces by Twenty-four Senators, Twelve thereof representing Nova Scotia, and Twelve thereof representing New Brunswick.

In the Case of Quebec each of the Twenty-four Senators representing that Province shall be appointed for One of the Twenty-four Electoral Divisions of Lower Canada specified in Schedule A. to Chapter One of the Consolidated Statutes of Canada.

23. The Qualification of a Senator shall be as follows:

(1) He shall be of the full age of Thirty Years:

(2) He shall be either a Natural-born Subject of the Queen, or a Subject of the Queen naturalized by an Act of the Parliament of Great Britain, or of the Parliament of the United Kingdom of Great Britain and Ireland, or of the Legislature of One of the Provinces of Upper Canada, Lower Canada, Canada, Nova Scotia, or New Brunswick, before the Union, or of the Parliament of Canada, after the Union;

(3) He shall be legally or equitably seised as of Freehold for his own Use and Benefit of Lands or Tenements held in free and common Socage, or seised or possessed for his own Use and Benefit of Lands or Tenements held in Franc-alleu or in Roture, within the Province for which he is appointed, of the Value of Four thousand Dollars, over and above all Rents, Dues, Debts, Charges, Mortgages, and Incumbrances due or payable out of or charged on or affecting the same:

(4) His Real and Personal Property shall be together worth Four thousand Dollars over and above his Debts and Liabilities:

(5) He shall be resident in the Province for which he is appointed:

(6) In the case of Quebec he shall have his Real Property Qualification in the Electoral Division for which he is appointed, or shall be resident in that Division.

24. The Governor General shall from Time to Time, in the Queen's Name, by Instrument under the Great Seal of Canada, summon qualified Persons to the Senate; and, subject to the Provisions of this Act, every Person so summoned shall become and be a Member of the Senate and a Senator.

25. Such Persons shall be first summoned to the Senate as the Queen by Warrant under Her Majesty's Royal Sign Manual thinks fit to approve, and their Names shall be inserted in the Queen's Proclamation of Union.

26. If at any Time on the Recommendation of the Governor General the Queen thinks fit to direct that Three or Six Members be added to the Senate, the Governor General may by Summons to Three or Six qualified Persons (as the Case may be), representing equally the Three Divisions of Canada, add to the Senate accordingly.

27. In case of such Addition being at any Time made the Governor General shall not summon any Person to the Senate, except on a further like Direction by the Queen on the like Recommendation, until each of the Three Divisions of Canada is represented by Twenty-four Senators and no more.

28. The Number of Senators shall not at any Time exceed Seventy-eight.

29. A Senator shall, subject to the Provisions of this Act, hold his Place in the Senate for Life.

30. A Senator may by Writing under his Hand addressed to the Governor General resign his Place in the Senate, and thereupon the same shall be vacant.

31. The Place of a Senator shall become vacant in any of the following Cases:—

(1) If for Two consecutive Sessions of the Parliament he fails to give his Attendance in the Senate:

(2) If he takes an Oath or makes a Declaration or Acknowledgment of Allegiance, Obedience, or Adherence to a Foreign Power, or does an Act whereby he becomes a Subject or Citizen, or entitled to the Rights or Privileges of a Subject or Citizen, of a Foreign Power:

(3) If he is adjudged Bankrupt or Insolvent, or applies for the Benefit of any Law relating to Insolvent Debtors, or becomes a public Defaulter:

(4) If he is attainted of Treason or convicted of Felony or of any infamous Crime:

(5) If he ceases to be qualified in respect of Property or of Residence; provided, that a Senator shall not be deemed to have ceased to be qualified in respect of Residence by reason only of his residing at the Seat of the Government of Canada while holding an Office under that Government requiring his Presence there.

32. When a Vacancy happens in the Senate by Resignation, Death, or otherwise, the Governor General shall by Summons to a fit and qualified Person fill the Vacancy.

33. If any Question arises respecting the Qualification of a Senator or a Vacancy in the Senate the same shall be heard and determined by the Senate.

34. The Governor General may from Time to Time, by Instrument under the Great Seal of Canada, appoint a Senator to be Speaker of the Senate, and may remove him and appoint another in his Stead.

35. Until the Parliament of Canada otherwise provides, the Presence of at least Fifteen Senators, including the Speaker, shall be necessary to constitute a Meeting of the Senate for the Exercise of its Powers.

36. Questions arising in the Senate shall be decided by a Majority of Voices, and the Speaker shall in all Cases have a Vote, and when the Voices are equal the Decision shall be deemed to be in the Negative.

The House of Commons

37. The House of Commons shall, subject to the Provisions of this Act, consist of One hundred and eighty-one Members, of whom Eighty-two shall be elected for Ontario, Sixty-five for Quebec, Nineteen for Nova Scotia, and Fifteen for New Brunswick.

38. The Governor General shall from Time to Time, in the Queen's Name, by Instrument under the Great Seal of Canada, summon and call together the House of Commons.

39. A Senator shall not be capable of being elected or of sitting or voting as a Member of the House of Commons.

40. Until the Parliament of Canada otherwise provides, Ontario, Quebec, Nova Scotia, and New Brunswick shall, for the Purposes of the Election of Members to serve in the House of Commons, be divided into Electoral Districts as follows:—

1. Ontario

Ontario shall be divided into the Counties, Ridings of Counties, Cities, Parts of Cities, and Towns enumerated in the First Schedule to this Act, each whereof shall be an Electoral District, each such District as numbered in that Schedule being entitled to return One Member.

2. Quebec

Quebec shall be divided into Sixty-five Electoral Districts, composed of the Sixty-five Electoral Divisions into which Lower Canada is at the passing of this Act divided under Chapter Two of the Consolidated Statutes of Canada, Chapter Seventy-five of the Consolidated Statutes for Lower Canada, and the Act of the Province of Canada of the Twenty-third Year of the Queen, Chapter One, or any other Act amending the same in force at the Union, so that each such Electoral Division shall be for the Purposes of this Act an Electoral District entitled to return One Member.

3. Nova Scotia

Each of the Eighteen Counties of Nova Scotia shall be an Electoral District. The County of Halifax shall be entitled to return Two Members, and each of the other Counties One Member.

4. New Brunswick

Each of the Fourteen Counties into which New Brunswick is divided, including the City and County of St. John, shall be an Electoral District. The City of St. John shall also be a separate Electoral District. Each of those Fifteen Electoral Districts shall be entitled to return One Member.

41. Until the Parliament of Canada otherwise provides, all Laws in force in the several Provinces at the Union relative to the following Matters or any of them, namely,—the Qualifications and Disqualifications of Persons to be elected or to sit or vote as Members of the House of Assembly or Legislative Assembly in the several Provinces, the Voters at Elections of such Members, the Oaths to be taken by Voters, the Returning Officers, their Powers and Duties, the Proceedings at Elections, the Periods during which Elections may be continued, the Trial of controverted Elections, and Proceedings incident thereto, the vacating of Seats of Members, and the Execution of new Writs in case of Seats vacated otherwise than by Dissolution, —shall respectively apply to Elections of Members to serve in the House of Commons for the same several Provinces.

Provided that, until the Parliament of Canada otherwise provides, at any Election for a Member of the House of Commons for the District of Algoma, in addition to Persons qualified by the Law of the Province of Canada to vote, every male British Subject, aged Twenty-one Years or upwards, being a Householder, shall have a Vote.

42. For the First Election of Members to serve in the House of Commons the Governor General shall cause Writs to be issued by such Person, in such Form, and addressed to such Returning Officers as he thinks fit.

The Person issuing Writs under this Section shall have the like Powers as are possessed at the Union by the Officers charged with the issuing of Writs for the Election of Members to serve in the respective House of Assembly or Legislative Assembly of the Province of Canada, Nova Scotia, or New Brunswick; and the Returning Officers to whom Writs are directed under this Section shall have the like Powers as are possessed at the Union by the

Officers charged with the returning of Writs for the Election of Members to serve in the same respective House of Assembly or Legislative Assembly.

43. In case a Vacancy in the Representation in the House of Commons of any Electoral District happens before the Meeting of the Parliament, or after the Meeting of the Parliament before Provision is made by the Parliament in this Behalf, the Provisions of the last foregoing Section of this Act shall extend and apply to the issuing and returning of a Writ in respect of such Vacant District.

44. The House of Commons on its first assembling after a General Election shall proceed with all practicable Speed to elect One of its Members to be Speaker.

45. In case of a Vacancy happening in the Office of Speaker by Death, Resignation, or otherwise, the House of Commons shall with all practicable Speed proceed to elect another of its Members to be Speaker.

46. The Speaker shall preside at all Meetings of the House of Commons.

47. Until the Parliament of Canada otherwise provides, in case of the Absence for any Reason of the Speaker from the Chair of the House of Commons for a period of Forty-eight consecutive Hours, the House may elect another of its Members to act as Speaker, and the Member so elected shall during the Continuance of such Absence of the Speaker have and execute all the Powers, Privileges, and Duties of Speaker.

48. The Presence of at least Twenty Members of the House of Commons shall be necessary to constitute a Meeting of the House for the Exercise of its Powers; and for that Purpose the Speaker shall be reckoned as a Member.

49. Questions arising in the House of Commons shall be decided by a Majority of Voices other than that of the Speaker, and when the Voices are equal, but not otherwise, the Speaker shall have a Vote.

50. Every House of Commons shall continue for Five Years from the Day of the Return of the Writs for choosing the House (subject to be sooner dissolved by the Governor General), and no longer.

51. On the Completion of the Census in the Year One thousand eight hundred and seventy-one, and of each subsequent decennial Census, the Representation of the Four Provinces shall be readjusted by such Authority, in such Manner, and from such Time, as the Parliament of Canada from Time to Time provides, subject and according to the following Rules:—

(1) Quebec shall have the fixed Number of Sixty-five Members:

(2) There shall be assigned to each of the other Provinces such a Number of Members as will bear the same Proportion to the Number of its Population (ascertained at such Census) as the Number Sixty-five bears to the Number of the Population of Quebec (so ascertained):

(3) In the Computation of the Number of Members for a Province a fractional Part not exceeding One Half the whole Number requisite for entitling the Province to a Member shall be disregarded; but a fractional Part exceeding One Half of that Number shall be equivalent to the whole Number:

(4) On any such Re-adjustment the Number of Members for a Province shall not be reduced unless the Proportion which the Number of the Population of the Province bore to the Number of the aggregate Population of Canada at the then last preceding Re-adjustment of the Number of Members for the Province is ascertained at the then latest Census to be diminished by One Twentieth Part or upwards:

(5) Such Re-adjustment shall not take effect until the Termination of the then existing Parliament.

52. The Number of Members of the House of Commons may be from Time to Time increased by the Parliament of Canada, provided the proportionate Representation of the Provinces prescribed by this Act is not thereby disturbed.

Money Votes; Royal Assent

53. Bills for appropriating any Part of the Public Revenue, or for imposing any Tax or Impost, shall originate in the House of Commons.

54. It shall not be lawful for the House of Commons to adopt or pass any Vote, Resolution, Address, or Bill for the Appropriation of any Part of the Public Revenue, or of any Tax or Impost, to any Purpose that has not been first recommended to that House by Message of the Governor General in the Session in which such Vote, Resolution, Address, or Bill is proposed.

55. Where a Bill passed by the Houses of Parliament is presented to the Governor General for the Queen's Assent, he shall declare, according to his Discretion, but subject to the Provisions of this Act and to Her Majesty's Instructions, either that he assents thereto in the Queen's Name, or that he withholds the Queen's Assent, or that he reserves the Bill for the Signification of the Queen's Pleasure.

56. Where the Governor General assents to a Bill in the Queen's Name, he shall by the first convenient Opportunity send an authentic Copy of the Act to one of Her Majesty's Principal Secretaries of State, and if the Queen in Council within Two Years after Receipt thereof by the Secretary of State thinks fit to disallow the Act, such Disallowance (with a Certificate of the Secretary of State of the Day on which the Act was received by him) being signified by the Governor General, by Speech or Message to each of the Houses of the Parliament or by Proclamation, shall annul the Act from and after the Day of such Signification.

57. A Bill reserved for the Signification of the Queen's Pleasure shall not have any Force unless and until within Two Years from the Day on which it was presented to the Governor General for the Queen's Assent, the Governor General signifies, by Speech or Message to each of the Houses of the Parliament or by Proclamation, that it has received the Assent of the Queen in Council.

An Entry of every such Speech, Message, or Proclamation shall be made in the Journal of each House, and a Duplicate thereof duly attested shall be delivered to the proper Officer to be kept among the Records of Canada.

V. Provincial Constitution

Executive Power

58. For each Province there shall be an Officer, styled the Lieutenant-Governor, appointed by the Governor General in Council by Instrument under the Great Seal of Canada.

59. A Lieutenant-Governor shall hold Office during the Pleasure of the Governor General; but any Lieutenant-Governor appointed after the Commencement of the First Session of the Parliament of Canada shall not be removable within Five Years from his Appointment, except for Cause assigned, which shall be communicated to him in Writing within One Month after the Order for his Removal is made, and shall be communicated by Message to the Senate and to the House of Commons within One Week thereafter if the Parliament is then Sitting, and if not then within One Week after the Commencement of the next Session of the Parliament.

60. The Salaries of the Lieutenant-Governors shall be fixed and provided by the Parliament of Canada.

61. Every Lieutenant-Governor shall, before assuming the Duties of his Office, make and subscribe before the Governor General or some Person authorized by him, Oaths of Allegiance and Office similar to those taken by the Governor General.

62. The Provisions of this Act referring to the Lieutenant-Governor extend and apply to the Lieutenant-Governor for the Time being of each Province or other the Chief Executive Officer or Administrator for the Time being carrying on the Government of the Province, by whatever Title he is designated.

63. The Executive Council of Ontario and of Quebec shall be composed of such Persons as the Lieutenant-Governor from Time to Time thinks fit, and in the first instance of the following Officers, namely,—the Attorney-General, the Secretary and Registrar of the Province, the Treasurer of the Province, the Commissioner of Crown Lands, and the Commissioner of Agriculture and Public Works, within Quebec, the Speaker of the Legislative Council and the Solicitor General.

64. The Constitution of the Executive Authority in each of the Provinces of Nova Scotia and New Brunswick shall, subject to the Provisions of this Act, continue as it exists at the Union until altered under the Authority of this Act.

65. All Powers, Authorities, and Functions which under any Act of the Parliament of Great Britain, or of the Parliament of the United Kingdom of Great Britain and Ireland, or of the Legislature of Upper Canada, Lower Canada, or Canada, were or are before or at the Union vested in or exerciseable by the respective Governors or Lieutenant-Governors of those Provinces, with the Advice or with the Advice and Consent of the respective Executive Councils thereof, or in conjunction with those Councils, or with any Number of Members thereof, or by those Governors or Lieutenant-Governors individually, shall, as far as the same are capable of being exercised after the Union in relation to the Government of Ontario and Quebec respectively, be vested in and shall or may be exercised by the Lieutenant-Governor of Ontario and Quebec respectively, with the Advice or with the Advice and Consent of or in

conjunction with the respective Executive Councils, or any Members thereof, or by the Lieutenant-Governor individually, as the Case requires, subject nevertheless (except with respect to such as exist under Acts of the Parliament of Great Britain, or of the Parliament of the United Kingdom of Great Britain and Ireland,) to be abolished or altered by the respective Legislatures of Ontario and Quebec.

66. The Provisions of this Act referring to the Lieutenant-Governor in Council shall be construed as referring to the Lieutenant-Governor of the Province acting by and with the Advice of the Executive Council thereof.

67. The Governor General in Council may from Time to Time appoint an Administrator to execute the Office and Functions of Lieutenant-Governor during his Absence, Illness, or other Inability.

68. Unless and until the Executive Government of any Province otherwise directs with respect to that Province the Seats of Government of the Provinces shall be as follows, namely,—of Ontario, the City of Toronto; of Quebec, the City of Quebec; of Nova Scotia, the City of Halifax; and of New Brunswick, the City of Fredericton.

Legislative Power

1. Ontario

69. There shall be a Legislature for Ontario consisting of the Lieutenant-Governor and of One House, styled the Legislative Assembly of Ontario.

70. The Legislative Assembly of Ontario shall be composed of Eighty-two Members, to be elected to represent the Eighty-two Electoral Districts set forth in the First Schedule to this Act.

2. Quebec

71. There shall be a Legislature for Quebec consisting of the Lieutenant-Governor and of Two Houses, styled the Legislative Council of Quebec and the Legislative Assembly of Quebec.

72. The Legislative Council of Quebec shall be composed of Twenty-four Members, to be appointed by the Lieutenant-Governor, in the Queen's Name, by Instrument under the Great Seal of Quebec, one being appointed to represent each of the Twenty-four Electoral Divisions of Lower Canada in this Act referred to, and each holding Office for the Term of his Life, unless the Legislature of Quebec otherwise provides under the Provisions of this Act.

73. The Qualifications of the Legislative Councillors of Quebec shall be the same as those of the Senators for Quebec.

74. The Place of a Legislative Councillor of Quebec shall become vacant in the Cases, *mutatis mutandis* in which the Place of Senator becomes vacant.

75. When a Vacancy happens in the Legislative Council of Quebec by Resignation, Death, or otherwise, the Lieutenant-Governor, in the Queen's Name, by Instrument under the Great Seal of Quebec, shall appoint a fit and qualified Person to fill the Vacancy.

76. If any Question arises respecting the Qualification of a Legislative Councillor of Quebec, or a Vacancy in the Legislative Council of Quebec, the same shall be heard and determined by the Legislative Council.

77. The Lieutenant-Governor may from Time to Time, by Instrument under the Great Seal of Quebec, appoint a Member of the Legislative Council of Quebec to be Speaker thereof, and may remove him and appoint another in his stead.

78. Until the Legislature of Quebec otherwise provides, the Presence of at least Ten Members of the Legislative Council, including the Speaker, shall be necessary to constitute a Meeting for the Exercise of its Powers.

79. Questions arising in the Legislative Council of Quebec shall be decided by a Majority of Voices, and the Speaker shall in all Cases have a Vote, and when the Voices are equal the Decision shall be deemed to be in the negative.

80. The Legislative Assembly of Quebec shall be composed of Sixty-five Members, to be elected to represent the Sixty-five Electoral Divisions or Districts of Lower Canada in this Act referred to, subject to Alteration thereof by the Legislature of Quebec: Provided that it shall not be lawful to present to the Lieutenant-Governor of Quebec for Assent any Bill for altering the Limits of any of the Electoral Divisions or Districts mentioned in the Second Schedule to this Act, unless the Second and Third Readings of such Bill have been passed in the Legislative Assembly with the Concurrence of the Majority of the Members representing all those Electoral Divisions or Districts, and the Assent shall not be given to such Bill unless an Address has been presented by the Legislative Assembly to the Lieutenant-Governor stating that it has been so passed.

3. Ontario and Quebec

81. The Legislatures of Ontario and Quebec respectively shall be called together not later than Six Months after the Union.

82. The Lieutenant-Governor of Ontario and of Quebec shall from Time to Time, in the Queen's Name, by Instrument under the Great Seal of the Province, summon and call together the Legislative Assembly of the Province.

83. Until the Legislature of Ontario or of Quebec otherwise provides, a Person accepting or holding in Ontario or in Quebec any Office, Commission, or Employment, permanent or temporary, at the Nomination of the Lieutenant-Governor, to which an annual Salary, or any Fee, Allowance, Emolument, or profit of any Kind or Amount whatever from the Province is attached, shall not be eligible as a Member of the Legislative Assembly of the respective Province, nor shall he sit or vote as such; but nothing in this Section shall make ineligible any Person being a Member of the Executive Council of the respective Province, or holding any of the following Offices, that is to say, the Offices of Attorney-General, Secretary and Registrar of the Province, Treasurer of the Province, Commissioner of Crown Lands, and Commissioner of Agriculture and Public Works, and in Quebec Solicitor General, or shall disqualify him to sit or vote in the House for which he is elected, provided he is elected while holding such Office.

84. Until the Legislatures of Ontario and Quebec respectively otherwise provide, all Laws which at the Union are in force in those Provinces respectively, relative to the following Matters, or any of them, namely,—the Qualifications and Disqualifications of Persons to be elected or to sit or vote as Members of the Assembly of Canada, the Qualifications or Disqualifications of Voters, the Oaths to be taken by Voters, the Returning Officers, their Powers and Duties, the Proceedings at Elections, the Periods during which such Elections may be continued, and the Trial of controverted Elections and the Proceedings incident thereto, the vacating of the Seats of Members and the issuing and Execution of new Writs in case of Seats vacated otherwise than by Dissolution,—shall respectively apply to Elections of Members to serve in the respective Legislative Assemblies of Ontario and Quebec.

Provided that until the Legislature of Ontario otherwise provides, at any Election for a Member of the Legislative Assembly of Ontario for the District of Algoma, in addition to Persons qualified by the Law of the Province of Canada to vote, every male British Subject, aged Twenty-one Years or upwards, being a Householder, shall have a Vote.

85. Every Legislative Assembly of Ontario and every Legislative Assembly of Quebec shall continue for Four Years from the Day of the Return of the Writs for choosing the same (subject nevertheless to either the Legislative Assembly of Ontario or the Legislative Assembly of Quebec being sooner dissolved by the Lieutenant-Governor of the Province), and no longer.

86. There shall be a session of the Legislature of Ontario and of that of Quebec once at least in every Year, so that Twelve Months shall not intervene between the last Sitting of the Legislature in each Province in one Session and its first Sitting in the next Session.

87. The following Provisions of this Act respecting the House of Commons of Canada shall extend and apply to the Legislative Assemblies of Ontario and Quebec, that is to say,—the Provisions relating to the Election of a Speaker originally and on Vacancies, the Duties of the Speaker, the absence of the Speaker, the Quorum, and the Mode of voting, as if those Provisions were here re-enacted and made applicable in Terms to each such Legislative Assembly.

4. Nova Scotia and New Brunswick

88. The Constitution of the Legislature of each of the Provinces of Nova Scotia and New Brunswick shall, subject to the Provisions of this Act, continue as it exists at the Union until altered under the Authority of this Act; and the House of Assembly of New Brunswick existing at the passage of this Act shall, unless sooner dissolved, continue for the Period for which it was elected.

5. Ontario, Quebec, and Nova Scotia

89. Each of the Lieutenant-Governors of Ontario, Quebec and Nova Scotia shall cause Writs to be issued for the First Election of Members of the Legislative Assembly thereof in such Form and by such Person as he thinks fit, and at such Time and addressed to such Returning Officer as the Governor General directs, and so that the First Election of a Member of the Assembly for any Electoral District or any Subdivision thereof shall be held at the same Time and at the same Places as the Election for a Member to serve in the House of Commons of Canada for that Electoral District.

6. The Four Provinces

90. The following Provisions of this Act respecting the Parliament of Canada, namely,—the Provisions relating to Appropriation and Tax Bills, the Recommendation of Money Votes, the Assent to Bills, the Disallowance of Acts, and the Signification of Pleasure on Bills reserved,—shall extend and apply to the Legislatures of the several Provinces as if those Provisions were here re-enacted and made applicable in Terms to the respective Provinces and the Legislatures thereof, with the Substitution of the Lieutenant-Governor of the Province for the Governor General, of the Governor General for the Queen and for a Secretary of State, of One Year for Two Years, and of the Province for Canada.

VI. Distribution of Legislative Powers

Powers of the Parliament

91. It shall be lawful for the Queen, by and with the Advice and Consent of the Senate and House of Commons, to make Laws for the Peace, Order, and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces, and for greater Certainty, but not so as to restrict the Generality of the foregoing Terms of this Section, it is hereby declared that (notwithstanding anything in this Act) the exclusive Legislative Authority of the Parliament of Canada extends to all Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say,—

1. The Public Debt and Property.
2. The Regulation of Trade and Commerce.
3. The raising of Money by any Mode or System of Taxation.
4. The borrowing of Money on the Public Credit.
5. Postal Service.
6. The Census and Statistics.
7. Militia, Military and Naval Service, and Defence.
8. The fixing of and providing for the Salaries and Allowances of Civil and other Officers of the Government of Canada.
9. Beacons, Buoys, Lighthouses, and Sable Island.
10. Navigation and Shipping.
11. Quarantine and the Establishment and Maintenance of Marine Hospitals.
12. Sea Coast and Inland Fisheries.
13. Ferries between a Province and any British or Foreign Country or between Two Provinces.
14. Currency and Coinage.
15. Banking, Incorporation of Banks, and the Issue of Paper Money.
16. Savings Banks.
17. Weights and Measures.
18. Bills of Exchange and Promissory Notes.
19. Interest.
20. Legal Tender.
21. Bankruptcy and Insolvency.
22. Patents of Invention and Discovery.
23. Copyrights.
24. Indians, and Lands reserved for the Indians.
25. Naturalization and Aliens.
26. Marriage and Divorce.
27. The Criminal Law, except the Constitution of Courts of Criminal Jurisdiction, but including the Procedure in Criminal Matters.
28. The Establishment, Maintenance, and Management of Penitentiaries.
29. Such Classes of Subjects as are expressly excepted in the Enumeration of the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces.

And any Matter coming within any of the Classes of Subjects enumerated in this Section shall not be deemed to come within the Class of Matters of a local or private Nature comprised in the Enumeration of the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces.

Exclusive Powers of Provincial Legislatures

92. In each Province the Legislature may exclusively make Laws in relation to Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say,—

1. The Amendment from Time to Time, notwithstanding anything in this Act, of the Constitution of the Province, except as regards the Office of Lieutenant-Governor.
2. Direct Taxation within the Province in order to the Raising of a Revenue for Provincial Purposes.
3. The borrowing of Money on the sole Credit of the Province.
4. The Establishment and Tenure of Provincial Offices and the Appointment and Payment of Provincial Officers.

5. The Management and Sale of the Public Lands belonging to the Province and of the Timber and Wood thereon.
6. The Establishment, Maintenance, and Management of Public and Reformatory Prisons in and for the Province.
7. The Establishment, Maintenance, and Management of Hospitals, Asylums, Charities, and Eleemosynary Institutions in and for the Province, other than Marine Hospitals.
8. Municipal Institutions in the Province.
9. Shop, Saloon, Tavern, Auctioneer, and other Licenses in order to the raising of a Revenue for Provincial, Local, or Municipal Purposes.
10. Local Works and Undertakings other than such as are of the following Classes:—
    (*a*) Lines of Steam or other Ships, Railways, Canals, Telegraphs, and other Works and Undertakings connecting the Province with any other or others of the Provinces, or extending beyond the Limits of the Province:
    (*b*) Lines of Steam Ships between the Province and any British or Foreign Country:
    Such Works as, although wholly situate within the Province, are before or after their Execution declared by the Parliament of Canada to be for the general Advantage of Canada or for the Advantage of Two or more of the Provinces.
11. The Incorporation of Companies with Provincial Objects.
12. The Solemnization of Marriage in the Province.
13. Property and Civil Rights in the Province.
14. The Administration of Justice in the Province, including the Constitution, Maintenance, and Organization of Provincial Courts, both of Civil and of Criminal Jurisdiction, and including Procedure in Civil Matters in those Courts.
15. The Imposition of Punishment by Fine, Penalty, or Imprisonment for enforcing any Law of the Province made in relation to any Matter coming within any of the Classes of Subjects enumerated in this Section.
16. Generally all Matters of a merely local or private Nature in the Province.

Education

93. In and for each Province the Legislature may exclusively make Laws in relation to Education, subject and according to the following Provisions:—

(1) Nothing in any such Law shall prejudicially affect any Right or Privilege with respect to Denominational Schools which any Class of Persons have by Law in the Province at the Union:

(2) All the Powers, Privileges, and Duties at the Union by Law conferred and imposed in Upper Canada on the Separate Schools and School Trustees of the Queen's Roman Catholic Subjects shall be and the same are hereby extended to the Dissentient Schools of the Queen's Protestant and Roman Catholic Subjects in Quebec:

(3) Where in any Province a System of Separate or Dissentient Schools exists by Law at the Union or is thereafter established by the Legislature of the Province, an Appeal shall lie to the Governor General in Council from any Act or Decision of any Provincial Authority affecting any Right or Privilege of the Protestant or Roman Catholic Minority of the Queen's Subjects in relation to Education:

(4) In case any such Provincial Law as from Time to Time seems to the Governor General in Council requisite for the due Execution of the Provisions of this Section is not made, or in case any Decision of the Governor General in Council on any Appeal under this Section is not duly executed by the proper Provincial Authority in that Behalf, then and in every such Case, and as far only as the Circumstances of each Case require, the Parliament of Canada may make remedial Laws for the due Execution of the Provisions of this Section and of any Decision of the Governor General in Council under this Section.

Uniformity of Laws in Ontario, Nova Scotia, and New Brunswick

94. Notwithstanding anything in this Act, the Parliament of Canada may make Provision for the Uniformity of all or any of the Laws relative to Property and Civil Rights in Ontario, Nova Scotia, and New Brunswick, and of the Procedure of all or any of the Courts in those Three Provinces, and

from and after the passing of any Act in that Behalf the Power of the Parliament of Canada to make Laws in relation to any Matter comprised in any such Act shall, notwithstanding anything in this Act, be unrestricted; but any Act of the Parliament of Canada making Provision for such Uniformity shall not have effect in any Province unless and until it is adopted and enacted as Law by the Legislature thereof.

Agriculture and Immigration

95. In each Province the Legislature may make Laws in relation to Agriculture in the Province, and to Immigration into the Province; and it is hereby declared that the Parliament of Canada may from Time to Time make Laws in relation to Agriculture in all or any of the Provinces, and to Immigration into all or any of the Provinces; and any Law of the Legislature of a Province relative to Agriculture or to Immigration shall have effect in and for the Province as long and as far only as it is not repugnant to any Act of the Parliament of Canada.

VII. Judicature

96. The Governor General shall appoint the Judges of the Superior, District, and County Courts in each Province, except those of the Courts of Probate in Nova Scotia and New Brunswick.

97. Until the Laws relative to Property and Civil Rights in Ontario, Nova Scotia, and New Brunswick, and the Procedure of the Courts in those Provinces, are made uniform, the Judges of the Courts of those Provinces appointed by the Governor General shall be selected from the respective Bars of those Provinces.

98. The Judges of the Courts of Quebec shall be selected from the Bar of that Province.

99. The Judges of the Superior Courts shall hold office during good Behaviour, but shall be removable by the Governor General on Address of the Senate and House of Commons.

100. The Salaries, Allowances, and Pensions of the Judges of the Superior, District, and County Courts (except the Courts of Probate in Nova Scotia and New Brunswick), and of the Admiralty Courts in Cases where the Judges thereof are for the Time being paid by Salary, shall be fixed and provided by the Parliament of Canada.

101. The Parliament of Canada may, notwithstanding anything in this Act, from Time to Time, provide for the Constitution, Maintenance, and Organization of a General Court of Appeal for Canada, and for the Establishment of any additional Courts for the better Administration of the Laws of Canada.

VIII. Revenues; Debts; Assets; Taxation

102. All Duties and Revenues over which the respective Legislatures of Canada, Nova Scotia, and New Brunswick before and at the Union had and have Power of Appropriation, except such portions thereof as are by this Act reserved to the respective Legislatures of the Provinces, or are raised by them in accordance with the special Powers conferred on them by this Act, shall form One Consolidated Revenue Fund, to be appropriated for the Public Service of Canada in the Manner and subject to the Charges in this Act provided.

103. The Consolidated Revenue Fund of Canada shall be permanently charged with the Costs, Charges, and Expenses incident to the Collection, Management, and Receipt thereof, and the same shall form the first Charge thereon, subject to be reviewed and audited in such Manner as shall be ordered by the Governor General in Council until the Parliament otherwise provides.

104. The annual Interest of the Public Debts of the several Provinces of Canada, Nova Scotia, and New Brunswick at the Union shall form the Second Charge on the Consolidated Revenue Fund of Canada.

105. Unless altered by the Parliament of Canada, the salary of the Governor General shall be Ten thousand Pounds Sterling Money of the United Kingdom of Great Britain and Ireland, payable out of the Consolidated Revenue Fund of Canada, and the same shall form the Third Charge thereon.

106. Subject to the several Payments by this Act charged on the Consolidated Revenue Fund of Canada, the same shall be appropriated by the Parliament of Canada for the Public Service.

107. All Stocks, Cash, Banker's Balances, and Securities for Money belonging to each Province at the time of the Union, except as in this Act mentioned, shall be the Property of Canada, and shall be taken in Reduction of the amount of the respective Debts of the Provinces at the Union.

108. The Public Works and Property of each Province, enumerated in the Third Schedule to this Act, shall be the Property of Canada.

109. All Lands, Mines, Minerals, and Royalties belonging to the several Provinces of Canada, Nova Scotia, and New Brunswick at the Union, and all Sums then due or payable for such Lands, Mines, Minerals, or Royalties, shall belong to the several Provinces of Ontario, Quebec, Nova Scotia, and New Brunswick in which the same are situate or arise, subject to any Trusts existing in respect thereof, and to any Interest other than that of the Province in the same.

110. All Assets connected with such Portions of the Public Debt of each Province as are assumed by that Province shall belong to that Province.

111. Canada shall be liable for the Debts and Liabilities of each Province existing at the Union.

112. Ontario and Quebec conjointly shall be liable to Canada for the amount (if any) by which the Debt of the Province of Canada exceeds at the Union Sixty-two million five hundred thousand dollars, and shall be charged with Interest at the Rate of Five per Centum per Annum thereon.

113. The Assets enumerated in the Fourth Schedule to this Act belonging at the Union to the Province of Canada shall be the Property of Ontario and Quebec conjointly.

114. Nova Scotia shall be liable to Canada for the Amount (if any) by which its Public Debt exceeds at the Union Eight million Dollars, and shall be charged with Interest at the Rate of Five per Centum per Annum thereon.

115. New Brunswick shall be liable to Canada for the Amount (if any) by which its Public Debt exceeds at the Union Seven million Dollars, and shall be charged with Interest at the Rate of Five per Centum per Annum thereon.

116. In case the Public Debts of Nova Scotia and New Brunswick do not at the Union amount to Eight million and Seven million Dollars respectively, they shall respectively receive by half-yearly Payments in advance from the Government of Canada Interest at Five per Centum per Annum on the Difference between the Actual Amounts of their respective Debts and such stipulated Amounts.

117. The several Provinces shall retain all their respective Public Property not otherwise disposed of in this Act, subject to the Right of Canada to assume any Lands or Public Property required for Fortifications or for the Defence of the Country.

118. The following Sums shall be paid yearly by Canada to the several Provinces for the Support of their Governments and Legislatures:

	Dollars.
Ontario	Eighty thousand.
Quebec	Seventy thousand.
Nova Scotia	Sixty thousand.
New Brunswick	Fifty thousand.
	Two hundred and sixty thousand;

and an annual Grant in aid of each Province shall be made, equal to Eighty Cents per Head of the Population as ascertained by the Census of One thousand eight hundred and sixty-one, and in the Case of Nova Scotia and New Brunswick, by each subsequent Decennial Census until the Population of each of those two Provinces amounts to Four hundred thousand Souls, at which Rate such Grant shall thereafter remain. Such Grants shall be in full Settlement of all future Demands on Canada, and shall be paid half-yearly in advance to each Province; but the Government of Canada shall deduct from such Grants, as against any Province, all Sums chargeable as Interest on the Public Debt of that Province in excess of the several Amounts stipulated in this Act.

119. New Brunswick shall receive by half-yearly Payments in advance from Canada for the Period of Ten years from the Union an additional Allowance of Sixty-three thousand Dollars per Annum; but as long as the Public Debt of that Province remains under Seven million Dollars, a Deduction equal to the Interest at Five per Centum per Annum on such Deficiency shall be made from that Allowance of Sixty-three thousand Dollars.

120. All payments to be made under this Act, or in discharge of Liabilities created under any Act of the Provinces of Canada, Nova Scotia, and New Brunswick respectively, and assumed by Canada, shall, until the Parliament of Canada otherwise directs, be made in such Form and Manner as may from Time to Time be ordered by the Governor General in Council.

121. All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces.

122. The Customs and Excise Laws of each Province shall, subject to the Provisions of this Act, continue in force until altered by the Parliament of Canada.

123. Where Customs Duties are, at the Union, leviable on any Goods, Wares, or Merchandises in any Two Provinces, those Goods, Wares, and Merchandises may, from and after the Union, be imported from one of those Provinces into the other of them on Proof of Payment of the Customs Duty leviable thereon in the Province of Exportation, and on Payment of such further Amount (if any) of Customs Duty as is leviable thereon in the Province of Importation.

124. Nothing in this Act shall affect the Right of New Brunswick to levy the Lumber Dues provided in Chapter Fifteen of Title Three of the Revised Statutes of New Brunswick, or in any Act amending that Act before or after the Union, and not increasing the Amount of such Dues; but the Lumber of any of the Provinces other than New Brunswick shall not be subject to such Dues.

125. No Lands or Property belonging to Canada or any Province shall be liable to Taxation.

126. Such Portions of the Duties and Revenues over which the respective Legislatures of Canada, Nova Scotia, and New Brunswick had before the Union Power of Appropriation as are by this Act reserved to the respective Governments or Legislatures of the Provinces, and all Duties and Revenues raised by them in accordance with the special Powers conferred upon them by this Act, shall in each Province form One Consolidated Revenue Fund to be appropriated for the Public Service of the Province.

IX. Miscellaneous Provisions

General

127. If any Person being at the passing of this Act a Member of the Legislative Council of Canada, Nova Scotia, or New Brunswick, to whom a Place in the Senate is offered, does not within Thirty Days thereafter, by Writing under his Hand addressed to the Governor General of the Province of Canada or to the Lieutenant Governor of Nova Scotia or New Brunswick (as the Case may be), accept the same, he shall be deemed to have declined the same; and any Person who, being at the passing of this Act a Member of the Legislative Council of Nova Scotia or New Brunswick, accepts a Place in the Senate shall thereby vacate his Seat in such Legislative Council.

128. Every Member of the Senate or House of Commons of Canada shall before taking his Seat therein take and subscribe before the Governor General or some Person authorized by him, and every Member of a Legislative Council or Legislative Assembly of any Province shall before taking his Seat therein take and subscribe before the Lieutenant Governor of the Province or some Person authorized by him, the Oath of Allegiance contained in the Fifth Schedule to this Act; and every Member of the Senate of Canada and every Member of the Legislative Council of Quebec shall also, before taking his Seat therein, take and subscribe before the Governor General, or some Person authorized by him, the Declaration of Qualification contained in the same Schedule.

129. Except as otherwise provided by this Act, all Laws in force in Canada, Nova Scotia, or New Brunswick at the Union, and all Courts of Civil and Criminal Jurisdiction, and all legal Commissions, Powers, and Authorities, and all Officers, Judicial, Administrative, and Ministerial, existing therein at the Union, shall continue in Ontario, Quebec, Nova Scotia, and New Brunswick respectively, as if the Union had not been made; subject nevertheless (except with respect to such as are enacted by or exist under Acts of the Parliament of Great Britain or of the Parliament of the United Kingdom of Great Britain and Ireland,) to be repealed, abolished, or altered by the Parliament of Canada, or by the Legislature of the respective Province, according to the Authority of the Parliament or of that Legislature under this Act.

130. Until the Parliament of Canada otherwise provides, all Officers of the several Provinces having Duties to discharge in relation to Matters other than those coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces shall be Officers of Canada, and shall continue to discharge the Duties of their respective Offices under the same Liabilities, Responsibilities, and Penalties as if the Union had not been made.

131. Until the Parliament of Canada otherwise provides, the Governor General in Council may from Time to Time appoint such Officers as the Governor General in Council deems necessary or proper for the effectual Execution of this Act.

132. The Parliament and Government of Canada shall have all Powers necessary or proper for performing the Obligations of Canada or of any Province thereof, as Part of the British Empire, towards Foreign Countries arising under Treaties between the Empire and such Foreign Countries.

133. Either the English or the French Language may be used by any Person in the Debates of the

Houses of the Parliament of Canada and of the Houses of the Legislature of Quebec; and both those Languages shall be used in the respective Records and Journals of those Houses; and either of those Languages may be used by any Person or in any Pleading or Process in or issuing from any Court of Canada established under this Act, and in or from all or any of the Courts of Quebec.

The Acts of the Parliament of Canada and of the Legislature of Quebec shall be printed and published in both those Languages.

Ontario and Quebec

134. Until the Legislature of Ontario or of Quebec otherwise provides, the Lieutenant-Governors of Ontario and Quebec may each appoint under the Great Seal of the Province the following Officers, to hold Office during Pleasure, that is to say,—the Attorney-General, the Secretary and Registrar of the Province, the Treasurer of the Province, the Commissioner of Crown Lands, and the Commissioner of Agriculture and Public Works, and in the Case of Quebec the Solicitor General, and may, by Order of the Lieutenant-Governor in Council, from Time to Time prescribe the Duties of those Officers and of the several Departments over which they shall preside or to which they shall belong, and of the Officers and Clerks thereof; and may also appoint other and additional Officers to hold Office during Pleasure, and may from Time to Time prescribe the Duties of those Officers, and of the several Departments over which they shall preside or to which they shall belong, and of the Officers and Clerks thereof.

135. Until the Legislature of Ontario or Quebec otherwise provides, all Rights, Powers, Duties, Functions, Responsibilities, or Authorities at the passing of this Act vested in or imposed on the Attorney-General, Solicitor General, Secretary and Registrar of the Province of Canada, Minister of Finance, Commissioner of Crown Lands, Commissioner of Public Works, and Minister of Agriculture and Receiver General, by any Law, Statute or Ordinance of Upper Canada, Lower Canada, or Canada, and not repugnant to this Act, shall be vested in or imposed on any Officer to be appointed by the Lieutenant-Governor for the Discharge of the same or any of them; and the Commissioner of Agriculture and Public Works shall perform the Duties and Functions of the Office of Minister of Agriculture at the passing of this Act imposed by the Law of the Province of Canada, as well as those of the Commissioner of Public Works.

136. Until altered by the Lieutenant-Governor in Council, the Great Seals of Ontario and Quebec respectively shall be the same, or of the same Design, as those used in the Provinces of Upper Canada and Lower Canada respectively before their Union as the Province of Canada.

137. The Words "and from thence to the End of the then next ensuing Session of the Legislature," or Words to the same Effect, used in any temporary Act of the Province of Canada not expired before the Union, shall be construed to extend and apply to the next Session of the Parliament of Canada if the subject Matter of the Act is within the Powers of the same, as defined by this Act, or to the next Sessions of the Legislatures of Ontario and Quebec respectively if the Subject Matter of the Act is within the Powers of the same as defined by this Act.

138. From and after the Union the Use of the Words "Upper Canada" instead of "Ontario," or "Lower Canada" instead of "Quebec," in any Deed, Writ, Process, Pleading, Document, Matter, or Thing, shall not invalidate the same.

139. Any Proclamation under the Great Seal of the Province of Canada issued before the Union to take effect at a Time which is subsequent to the Union, whether relating to that Province, or to Upper Canada, or to Lower Canada, and the several Matters and Things therein proclaimed shall be and continue of like Force and Effect as if the Union had not been made.

140. Any Proclamation which is authorized by any Act of the Legislature of the Province of Canada to be issued under the Great Seal of the Province of Canada, whether relating to that Province, or to Upper Canada, or to Lower Canada, and which is not issued before the Union, may be issued by the Lieutenant-Governor of Ontario or of Quebec, as its Subject Matter requires, under the Great Seal thereof; and from and after the Issue of such Proclamation the same and the several Matters and Things therein proclaimed shall be and continue of the like Force and Effect in Ontario or Quebec as if the Union had not been made.

141. The Penitentiary of the Province of Canada shall, until the Parliament of Canada otherwise provides, be and continue the Penitentiary of Ontario and of Quebec.

142. The Division and Adjustment of the Debts, Credits, Liabilities, Properties, and Assets of Upper Canada and Lower Canada shall be referred to the Arbitrament of Three Arbitrators, One chosen by

the Government of Ontario, One by the Government of Quebec, and One by the Government of Canada; and the Selection of the Arbitrators shall not be made until the Parliament of Canada and the Legislatures of Ontario and Quebec have met; and the Arbitrator chosen by the Government of Canada shall not be a Resident either in Ontario or in Quebec.

143. The Governor General in Council may from Time to Time order that such and so many of the Records, Books, and Documents of the Province of Canada as he thinks fit shall be appropriated and delivered either to Ontario or to Quebec, and the same shall thenceforth be the Property of that Province; and any Copy thereof or Extract therefrom, duly certified by the Officer having charge of the Original thereof, shall be admitted as Evidence.

144. The Lieutenant-Governor of Quebec may from Time to Time, by Proclamation under the Great Seal of the Province, to take effect from a day to be appointed therein, constitute Townships in those Parts of the Province of Quebec in which Townships are not then already constituted, and fix the Metes and Bounds thereof.

X. Intercolonial Railway

145. Inasmuch as the Provinces of Canada, Nova Scotia, and New Brunswick have joined in a Declaration that the Construction of the Intercolonial Railway is essential to the Consolidation of the Union of British North America, and to the Assent thereto of Nova Scotia and New Brunswick, and have consequently agreed that Provision should be made for its immediate Construction by the Government of Canada: Therefore, in order to give effect to that Agreement, it shall be the Duty of the Government and Parliament of Canada to provide for the Commencement within Six Months after the Union, of a Railway connecting the River St. Lawrence with the City of Halifax in Nova Scotia, and for the Construction thereof without Intermission, and the Completion thereof with all practicable Speed.

XI. Admission of other Colonies

146. It shall be lawful for the Queen, by and with the Advice of Her Majesty's Most Honourable Privy Council, on Addresses from the Houses of the Parliament of Canada, and from the Houses of the respective Legislatures of the Colonies or Provinces of Newfoundland, Prince Edward Island, and British Columbia, to admit those Colonies or Provinces, or any of them, into the Union, and on Address from the Houses of the Parliament of Canada to admit Rupert's Land and the North-western Territory, or either of them, into the Union, on such Terms and Conditions in each Case as are in the Addresses expressed and as the Queen thinks fit to approve, subject to the Provisions of this Act; and the Provisions of any Order in Council in that Behalf shall have effect as if they had been enacted by the Parliament of the United Kingdom of Great Britain and Ireland.

147. In case of the Admission of Newfoundland and Prince Edward Island, or either of them, each shall be entitled to a Representation in the Senate of Canada of Four Members, and (notwithstanding anything in this Act) in case of the Admission of Newfoundland the normal Number of Senators shall be Seventy-six and their maximum Number shall be Eighty-two; but Prince Edward Island when admitted shall be deemed to be comprised in the third of the Three Divisions into which Canada is, in relation to the Constitution of the Senate, divided by this Act, and accordingly, after the Admission of Prince Edward Island, whether Newfoundland is admitted or not, the Representation of Nova Scotia and New Brunswick in the Senate shall, as Vacancies occur, be reduced from Twelve to Ten Members respectively, and the Representation of each of those Provinces shall not be increased at any Time beyond Ten, except under the Provision of this Act for the Appointment of Three or Six additional Senators under the Direction of the Queen.

SCHEDULES

The FIRST SCHEDULE

Electoral Districts of Ontario

A

Existing Electoral Divisions

Counties

1. Prescott.
2. Glengarry.
3. Stormont.
4. Dundas.
5. Russell.
6. Carleton.
7. Prince Edward.
8. Halton.
9. Essex.

Ridings of Counties

10. North Riding of Lanark.
11. South Riding of Lanark.
12. North Riding of Leeds and North Riding of Grenville.
13. South Riding of Leeds.
14. South Riding of Grenville.
15. East Riding of Northumberland.
16. West Riding of Northumberland (excepting therefrom the Township of South Monaghan).
17. East Riding of Durham.
18. West Riding of Durham.
19. North Riding of Ontario.
20. South Riding of Ontario.
21. East Riding of York.
22. West Riding of York.
23. North Riding of York.
24. North Riding of Wentworth.
25. South Riding of Wentworth.
26. East Riding of Elgin.
27. West Riding of Elgin.
28. North Riding of Waterloo.
29. South Riding of Waterloo.
30. North Riding of Brant.
31. South Riding of Brant.
32. North Riding of Oxford.
33. South Riding of Oxford.
34. East Riding of Middlesex.

Cities, Parts of Cities, and Towns

35. West Toronto.
36. East Toronto.
37. Hamilton.
38. Ottawa.
39. Kingston.
40. London.
41. Town of Brockville, with the Township of Elizabethtown thereto attached.
42. Town of Niagara, with the Township of Niagara, thereto attached.
43. Town of Cornwall, with the Township of Cornwall thereto attached.

B

New Electoral Divisions

44. The Provisional Judicial District of Algoma.

The County of Bruce, divided into Two Ridings, to be called respectively the North and South Ridings:—

45. The North Riding of Bruce to consist of the Townships of Bury, Lindsay, Eastnor, Albermarle, Amabel, Arran, Bruce, Elderslie, and Langeen [Saugeen?], and the Village of Southampton.
46. The South Riding of Bruce to consist of the Townships of Kincardine (including the Village of Kincardine), Greenock, Brant, Huron, Kinross [Kinloss?], Culross, and Carrick.

The County of Huron, divided into Two Ridings, to be called respectively the North and South Ridings:—

47. The North Riding to consist of the Townships of Ashfield, Wawanosh, Turnberry, Howick, Morris, Grey, Colborne, Hullett, including the Village of Clinton, and McKillop.
48. The South Riding to consist of the Town of Goderich and the Townships of Goderich, Tuckersmith, Stanley, Hay, Usborne, and Stephen.

The County of Middlesex, divided into three Ridings, to be called respectively the North, West, and East Ridings:—

49. The North Riding to consist of the Townships of McGillivray and Biddulph (taken from the County of Huron), and Williams East, Williams West, Adelaide, and Lobo.
50. The West Riding to consist of the Townships of Delaware, Carradoc, Metcalfe, Mosa and Ekfrid, and the Village of Strathroy.

[The East Riding to consist of the Townships now embraced therein, and be bounded as it is at present.]

51. The County of Lambton to consist of the Townships of Bosanquet, Warwick, Plympton, Sarnia, Moore, Enniskillen, and Brooke, and the Town of Sarnia.

52. The County of KENT to consist of the Townships of Chatham, Dover, East Tilbury, Romney, Raleigh, and Harwich, and the Town of Chatham.
53. The County of BOTHWELL to consist of the Townships of Sombra, Dawn, and Euphemia (taken from the County of Lambton), and the Townships of Zone, Camden with the Gore thereof, Orford, and Howard (taken from the County of Kent).

The County of GREY, divided into Two Ridings, to be called respectively the South and North Ridings:—

54. The South Riding to consist of the Townships of Bentinck, Glenelg, Artemesia, Osprey, Normanby, Egremont, Proton, and Melancthon.
55. The North Riding to consist of the Townships of Collingwood, Euphrasia, Holland, Saint-Vincent, Sydenham, Sullivan, Derby, and Keppel, Sarawak and Brooke, and the Town of Owen Sound.

The County of PERTH, divided into Two Ridings, to be called respectively the South and North Ridings:—

56. The North Riding to consist of the Townships of Wallace, Elma, Logan, Ellice, Mornington, and North Easthope, and the Town of Stratford.
57. The South Riding to consist of the Townships of Blanchard, Downie, South Easthope, Fullarton, Hibbert, and the Villages of Mitchell and St. Mary's.

The County of WELLINGTON, divided into Three Ridings, to be called respectively North, South and Centre Ridings:—

58. The North Riding to consist of the Townships of Amaranth, Arthur, Luther, Minto, Maryborough, Peel, and the Village of Mount Forest.
59. The Centre Riding to consist of the Townships of Garafraxa, Erin, Eramosa, Nichol, and Pilkington, and the Villages of Fergus and Elora.
60. The South Riding to consist of the Town of Guelph, and the Townships of Guelph and Puslinch.

The County of NORFOLK, divided into Two Ridings, to be called respectively the South and North Ridings:—

61. The South Riding to consist of the Townships of Charlotteville, Houghton, Walsingham, and Woodhouse and with the Gore thereof.
62. The North Riding to consist of the Townships of Middleton, Townsend, and Windham, and the Town of Simcoe.
63. The County of HALDIMAND to consist of the Townships of Oneida, Seneca, Cayuga North, Cayuga South, Rainham, Walpole, and Dunn.
64. The County of MONCK to consist of the Townships of Canborough and Moulton, and Sherbrooke, and the Village of Dunnville (taken from the County of Haldimand), the Townships of Caister and Gainsborough (taken from the County of Lincoln), and the Townships of Pelham and Wainfleet (taken from the County of Welland).
65. The County of LINCOLN to consist of the Townships of Clinton, Grantham, Grimsby, and Louth, and the Town of St. Catharines.
66. The County of WELLAND to consist of the Townships of Bertie, Crowland, Humberstone, Stamford, Thorold, and Willoughby, and the Villages of Chippewa, Clifton, Fort Erie, Thorold, and Welland.
67. The County of PEEL to consist of the Townships of Chinguacousy, Toronto, and the Gore of Toronto, and the Villages of Brampton and Streetsville.
68. The County of CARDWELL to consist of the Townships of Albion and Caledon (taken from the County of Peel), and the Townships of Adjala and Mono (taken from the County of Simcoe).

The County of SIMCOE, divided into two Ridings, to be called respectively the South and North Ridings:—

69. The South Riding to consist of the Townships of West Gwillimbury, Tecumseth, Innisfil, Essa, Tossorontio, Mulmur, and the Village of Brantford.
70. The North Riding to consist of the Townships of Nottawasaga, Sunnidale, Vespra, Flos, Oro, Medonte, Orillia and Matchedash, Tiny and Tay, Balaklava and Robinson, and the Towns of Barrie and Collingwood.

The County of VICTORIA, divided into Two Ridings, to be called respectively the South and North Ridings:—

71. The South Riding to consist of the Townships of Ops, Mariposa, Emily, Verulam, and the Town of Lindsay.
72. The North Riding to consist of the Townships of Anson, Bexley, Carden, Dalton, Digby, Eldon, Fenelon, Hindon, Laxton, Lutterworth, Macaulay and Draper, Sommerville,

and Morrison, Muskoka, Monck and Watt (taken from the County of Simcoe), and any other surveyed Townships lying to the North of the said North Riding.

The County of PETERBOROUGH, divided into Two Ridings, to be called respectively the West and East Ridings:—

73. The West Riding to consist of the Townships of South Monaghan (taken from the County of Northumberland), North Monaghan, Smith, and Ennismore, and the Town of Peterborough.
74. The East Riding to consist of the Townships of Asphodel, Belmont and Methuen, Douro, Dummer, Galway, Harvey, Minden, Stanhope and Dysart, Otonabee, and Snowden, and the Village of Ashburnham, and any other surveyed Townships lying to the North of the said East Riding.

The County of HASTINGS, divided into Three Ridings, to be called respectively the West, East and North Ridings:—

75. The West Riding to consist of the Town of Belleville, the Township of Sydney, and the Village of Trenton.
76. The East Riding to consist of the Townships of Thurlow, Tyendinaga, and Hungerford.
77. The North Riding to consist of the Townships of Rawdon, Huntingdon, Madoc, Elzevir, Tudor, Marmora, and Lake and the Village of Stirling and any other surveyed Townships lying to the North of the said North Riding.
78. The County of LENNOX, to consist of the Townships of Richmond, Adolphustown, North Fredericksburgh, South Fredericksburgh, Ernest Town and Amherst Island, and the Village of Napanee.
79. The County of ADDINGTON to consist of the Townships of Camden, Portland, Sheffield, Hinchinbrooke, Kaladar, Kennebec, Olden, Oso, Anglesea, Barrie, Clarendon, Palmerston, Effingham, Abinger, Miller, Canonto, Denbigh, Loughborough, and Bedford.
80. The County of FRONTENAC to consist of the Townships of Kingston, Wolfe Island, Pittsburg, and Howe Island, and Storrington.

The County of RENFREW, divided into two Ridings, to be called respectively the South and North Ridings:—

81. The South Riding to consist of the Townships of McNab, Bagot, Blithfield, Brougham, Horton, Admaston, Grattan, Matawatchan, Griffith, Lyndoch, Raglan, Radcliffe, Brudenell, Sebastopol, and the Villages of Arnprior and Renfrew.
82. The North Riding to consist of the Townships of Ross, Bromley, Westmeath, Stafford, Pembroke, Wilberforce, Alice, Petawawa, Buchanan, South Algona, North Algona, Fraser, McKay, Wylie, Rolph, Head, Maria, Clara, Haggerty, Sherwood, Burns, and Richards, and any other surveyed Townships lying North-westerly of the said North Riding.

Every Town and incorporated Village existing at the Union, not specially mentioned in this Schedule, is to be taken as Part of the County or Riding within which it is locally situate.

The SECOND SCHEDULE

Electoral Districts of Quebec specially fixed

COUNTIES OF—

Pontiac.	Missisquoi	Compton.
Ottawa.	Brome.	Wolfe and
Argenteuil.	Shefford.	Richmond.
Huntingdon.	Stanstead.	Megantic.

Town of Sherbrooke.

The THIRD SCHEDULE

Provincial Public Works and Property to be the Property of Canada

1. Canals, with Lands and Water Power connected therewith.
2. Public Harbours.
3. Lighthouses and Piers, and Sable Island.
4. Steamboats, Dredges, and Public Vessels.
5. Rivers and Lake Improvements.
6. Railways and Railway Stocks, Mortgages, and other Debts due by Railway Companies.
7. Military Roads.
8. Custom Houses, Post Offices, and all other Public Buildings, except such as the Government of Canada appropriate for the Use of the Provincial Legislatures and Governments.
9. Property transferred by the Imperial Government, and known as Ordnance Property.
10. Armouries, Drill Sheds, Military Clothing, and Munitions of War, and Lands set apart for general Public Purposes.

The FOURTH SCHEDULE

Assets to be the Property of Ontario and Quebec conjointly

Upper Canada Building Fund.
Lunatic Asylums.
Normal School.
Court Houses in Aylmer, Montreal, Kamouraska, } Lower Canada.
Law Society, Upper Canada.
Montreal Turnpike Trust.
University Permanent Fund.
Royal Institution.
Consolidated Municipal Loan Fund, Upper Canada.
Consolidated Municipal Loan Fund, Lower Canada.
Agricultural Society, Upper Canada.
Lower Canada Legislative Grant.
Quebec Fire Loan.
Temisconata [Temiscouata?] Advance Account.
Quebec Turnpike Trust.
Education—East.
Building and Jury Fund, Lower Canada.
Municipalities Fund.
Lower Canada Superior Education Income Fund.

The FIFTH SCHEDULE

Oath of Allegiance

I, *A. B.*, do swear, That I will be faithful and bear true Allegiance to Her Majesty Queen Victoria.

Note.—The Name of the King or Queen of the United Kingdom of Great Britain and Ireland for the Time being is to be substituted from Time to Time, with Proper Terms of Reference thereto.

Declaration of Qualification

I, *A. B.* do declare and testify, That I am by Law duly qualified to be appointed a Member of the Senate of Canada [*or as the Case may be*], and that I am legally or equitably seised as of Freehold for my own Use and Benefit of Lands or Tenements held in Free and Common Socage [*or seised* or possessed for my own Use and Benefit of Lands or Tenements held in Franc-alleu or in Roture (*as the Case may be*),] in the Province of Nova Scotia [*or as the Case may be*] of the Value of Four thousand Dollars over and above all Rents, Dues, Debts, Mortgages, Charges, and Incumbrances due or payable out of or charged on or affecting the same and that I have not collusively or colourably obtained a Title to or become possessed of the said Lands and Tenements or any Part thereof for the Purposes of enabling me to become a Member of the Senate of Canada [*or as the Case may be*], and that my Real and Personal Property are together worth Four thousand Dollars over and above my Debts and Liabilities.

8337—25½

THE BRITISH NORTH AMERICA ACT, 1871
34-35 VICTORIA, CHAPTER 28

An Act respecting the establishment of Provinces in the Dominion of Canada

[*29th June, 1871*]

Whereas doubts have been entertained respecting the powers of the Parliament of Canada to establish Provinces in Territories admitted, or which may hereafter be admitted, into the Dominion of Canada, and to provide for the representation of such Provinces in the said Parliament, and it is expedient to remove such doubts, and to vest such powers in the said Parliament:

Be it enacted by the Queen's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. This Act may be cited for all purposes as The British North America Act, 1871.

2. The Parliament of Canada may from time to time establish new Provinces in any territories forming for the time being part of the Dominion of Canada, but not included in any Province thereof, and may, at the time of such establishment, make provision for the constitution and administration of any such Province, and for the passing of laws for the peace, order, and good government of such Province, and for its representation in the said Parliament.

3. The Parliament of Canada may from time to time, with the consent of the Legislature of any Province of the said Dominion, increase, diminish, or otherwise alter the limits of such Province, upon such terms and conditions as may be agreed to by the said Legislature, and may, with the like consent, make provision respecting the effect and operation of any such increase or diminution or alteration of territory in relation to any Province affected thereby.

4. The Parliament of Canada may from time to time make provision for the administration, peace, order, and good government of any territory not for the time being included in any Province.

5. The following Acts passed by the said Parliament of Canada, and intituled respectively,—"An Act for the temporary government of Rupert's Land and the North Western Territory when united with Canada"; and "An Act to amend and continue the Act thirty-two and thirty-three Victoria, chapter three, and to establish and provide for the government of the Province of Manitoba," shall be and be deemed to have been valid and effectual for all purposes whatsoever from the date at which they respectively received the assent, in the Queen's name, of the Governor General of the said Dominion of Canada.

6. Except as provided by the third section of this Act, it shall not be competent for the Parliament of Canada to alter the provisions of the last-mentioned Act of the said Parliament in so far as it relates to the Province of Manitoba, or of any other Act hereafter establishing new Provinces in the said Dominion, subject always to the right of the Legislature of the Province of Manitoba to alter from time to time the provisions of any law respecting the qualification of electors and members of the Legislative Assembly, and to make laws respecting elections in the said Province.

THE PARLIAMENT OF CANADA ACT, 1875
38-39 VICTORIA, CHAPTER 38

An Act to remove certain doubts with respect to the powers of the Parliament of Canada under section eighteen of the British North America Act, 1867.

[*19th July, 1875.*]

Whereas by section eighteen of the British North America Act, 1867, it is provided as follows: "The privileges, immunities, and powers to be held, enjoyed, and exercised by the Senate and by the House of Commons, and by the Members thereof respectively, shall be such as are from time to time defined by Act of the Parliament of Canada, but so that the same shall never exceed those at the passing of this Act held, enjoyed, and exercised by the Commons House of Parliament of the United Kingdom of Great Britain and Ireland, and by the Members thereof:"

And whereas doubts have arisen with regard to the power of defining by an Act of the Parliament of Canada, in pursuance of the said section, the said privileges, powers, or immunities; and it is expedient to remove such doubts:

Be it therefore enacted by the Queen's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. Section eighteen of the British North America Act, 1867, is hereby repealed, without prejudice to anything done under that section, and the following section shall be substituted for the section so repealed.

The privileges, immunities, and powers to be held, enjoyed, and exercised by the Senate and by the House of Commons, and by the Members thereof respectively, shall be such as are from time to time defined by Act of the Parliament of Canada, but so that any Act of the Parliament of Canada defining such privileges, immunities, and powers shall not confer any privileges, immunities, or powers exceeding those at the passing of such Act held, enjoyed, and exercised by the Commons House of Parliament of the United Kingdom of Great Britain and Ireland, and by the Members thereof.

2. The Act of the Parliament of Canada passed in the thirty-first year of the reign of Her present Majesty, chapter twenty-four, intituled "An Act to provide for oaths to witnesses being administered in certain cases for the purposes of either House of Parliament," shall be deemed to be valid, and to have been valid as from the date at which the Royal Assent was given thereto by the Governor General of the Dominion of Canada.

3. This Act may be cited as the Parliament of Canada Act, 1875.

THE BRITISH NORTH AMERICA ACT, 1886
49-50 VICTORIA, CHAPTER 35

An Act respecting the Representation in the Parliament of Canada of Territories which for the time being form part of the Dominion of Canada, but are not included in any Province.

[*25th June, 1886.*]

Whereas it is expedient to empower the Parliament of Canada to provide for the representation in the Senate and House of Commons of Canada, or either of them, of any territory which for the time being forms part of the Dominion of Canada, but is not included in any province:

Be it therefore enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lord's Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same as follows:—

1. The Parliament of Canada may from time to time make provision for the representation in the Senate and House of Commons of Canada, or in either of them, of any territories which for the time being form part of the Dominion of Canada, but are not included in any province thereof.

2. Any Act passed by the Parliament of Canada before the passing of this Act for the purpose mentioned in this Act shall, if not disallowed by the Queen, be, and shall be deemed to have been, valid and effectual from the date at which it received the assent, in Her Majesty's name, of the Governor General of Canada.

It is hereby declared that any Act passed by the Parliament of Canada, whether before or after the passing of this Act, for the purpose mentioned in this Act or in the British North America Act, 1871, has effect, notwithstanding anything in the British North America Act, 1867, and the number of Senators or the number of Members of the House of Commons specified in the last-mentioned Act is increased by the number of Senators or of Members, as the case may be, provided by any such Act of the Parliament of Canada for the representation of any provinces or territories of Canada.

3. This Act may be cited as the British North America Act, 1886.

This Act and the British North America Act, 1867, and the British North America Act, 1871, shall be construed together, and may be cited together as the British North America Acts, 1867 to 1886.

BRITISH NORTH AMERICA ACT, 1907
7 EDWARD VII, CHAPTER 11

An Act to make further provision with respect to the sums to be paid by Canada to the several Provinces of the Dominion.

[*9th August, 1907.*]

Whereas an address has been presented to His Majesty by the Senate and Commons of Canada in the terms set forth in the schedule to this Act;

Be it therefore enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. (1) The following grants shall be made yearly by Canada to every province, which at the commencement of this Act is a province of the Dominion, for its local purposes and the support of its Government and Legislature:—

(*a*) A fixed grant—

where the population of the province is under one hundred and fifty thousand, of one hundred thousand dollars;

where the population of the province is one hundred and fifty thousand, but does not exceed two hundred thousand, of one hundred and fifty thousand dollars;

where the population of the province is two hundred thousand, but does not exceed four hundred thousand, of one hundred and eighty thousand dollars;

where the population of the province is four hundred thousand, but does not exceed eight hundred thousand, of one hundred and ninety thousand dollars;

where the population of the province is eight hundred thousand, but does not exceed one million five hundred thousand, of two hundred and twenty thousand dollars;

where the population of the province exceeds one million five hundred thousand, of two hundred and forty thousand dollars; and

(*b*) Subject to the special provisions of this Act as to the provinces of British Columbia and Prince Edward Island, a grant at the rate of eighty cents per head of the population of the province up to the number of two million five hundred thousand, and at the rate of sixty cents per head of so much of the population as exceeds that number.

(2) An additional grant of one hundred thousand dollars shall be made yearly to the Province of British Columbia for a period of ten years from the commencement of this Act.

(3) The population of a province shall be ascertained from time to time in the case of the provinces of Manitoba, Saskatchewan, and Alberta respectively by the last quinquennial census or statutory estimate of population made under the Acts establishing those provinces or any other Act of the Parliament of Canada making provision for the purpose, and in the case of any other province by the last decennial census for the time being.

(4) The grants payable under this Act shall be paid half-yearly in advance to each province.

(5) The grants payable under this Act shall be substituted for the grants or subsidies (in this Act referred to as existing grants) payable for the like purposes at the commencement of this Act to the several provinces of the Dominion, under the provisions of section one hundred and eighteen of the British North America Act, 1867, or of any Order in Council establishing a province, or of any Act of the Parliament of Canada containing directions for the payment of any such grant or subsidy, and those provisions shall cease to have effect.

(6) The Government of Canada shall have the same power of deducting sums charged against a province on account of the interest on public debt in the case of the grant payable under this Act to the province as they have in the case of the existing grant.

(7) Nothing in this Act shall affect the obligation of the Government of Canada to pay to any province any grant which is payable to that province, other than the existing grant for which the grant under this Act is substituted.

(8) In the case of the provinces of British Columbia and Prince Edward Island, the amount paid on account of the grant payable per head of the population to the provinces under this Act shall not at any time be less than the amount of the corresponding grant payable at the commencement of this Act; and if it is found on any decennial census that the population of the province has decreased since the last decennial census, the amount paid on account of the grant shall not be decreased below the amount then payable, notwithstanding the decrease of the population.

2. This Act may be cited as the British North America Act, 1907, and shall take effect as from the first day of July, nineteen hundred and seven.

SCHEDULE

To the King's Most Excellent Majesty

Most Gracious Sovereign,

We, Your Majesty's most dutiful and loyal subjects, the Senate and Commons of Canada, in Parliament assembled, humbly approach Your Majesty for the purpose of representing that it is expedient to amend the scale of payments authorized under section 118 of the Acts of the Parliament of the United Kingdom of Great Britain and Ireland, commonly called the British North America Act, 1867, or by or under any terms or conditions upon which any other provinces were admitted to the Union, to be made by Canada to the several provinces of the Dominion for the support of their Governments and Legislatures by providing that—

A. Instead of the amounts now payable, the sums hereafter payable yearly by Canada to the several provinces for the support of their Governments and Legislatures be according to population, and as follows:—

(*a*) Where the population of the province is under 150,000, $100,000;
(*b*) Where the population of the province is 150,000, but does not exceed 200,000, $150,000;
(*c*) Where the population of the province is 200,000, but does not exceed 400,000, $180,000;
(*d*) Where the population of the province is 400,000, but does not exceed 800,000, $190,000;
(*e*) Where the population of the province is 800,000, but does not exceed 1,500,000, $220,000;
(*f*) Where the population of the province exceeds 1,500,000, $240,000.

B. Instead of an annual grant per head of population now allowed, the annual payment hereafter be at the same rate of eighty cents per head, but on the population of each province, as ascertained from time to time by the last decennial census, or in the case of the provinces of Manitoba, Saskatchewan, and Alberta respectively, by the last quinquennial census or statutory estimate, until such population exceeds 2,500,000, and at the rate of sixty cents per head for so much of said population as may exceed 2,500,000.

C. An additional allowance to the extent of one hundred thousand dollars annually be paid for ten years to the province of British Columbia.

D. Nothing herein contained shall in any way supersede or affect the terms special to any particular province upon which such province became part of the Dominion of Canada, or the right of any province to the payment of any special grant heretofore made by the Parliament of Canada to any province for any special purpose in such grant expressed.

We pray that Your Majesty may be graciously pleased to cause a measure to be laid before the Imperial Parliament at its present Session repealing the provisions of section 118 of the British North America Act, 1867, aforesaid, and substituting therefor the scale of payments above set forth, which shall be a final and unalterable settlement of the amounts to be paid yearly to the several provinces of the Dominion for their local purposes, and the support of their Governments and Legislatures.

Such grants shall be paid half-yearly in advance to each province, but the Government of Canada shall deduct from such grants as against any province all sums chargeable as interest on the public debt of that province in excess of the several amounts stipulated in the said Act.

All of which we humbly pray Your Majesty to take into your favourable and gracious consideration.

(Signed) R. Dandurand,
Speaker of the Senate.

(Signed) R. F. Sutherland,
Speaker of the House of Commons.

Senate and House of Commons,
Ottawa, Canada,
26th April, 1907.

THE BRITISH NORTH AMERICA ACT, 1915
5-6 GEORGE V, CHAPTER 45

An Act to amend the British North America Act, 1867

[*19th May, 1915.*]

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. (1) Notwithstanding anything in the British North America Act, 1867, or in any Act amending the same, or in any Order in Council or terms or conditions of union made or approved under the said Acts or in any Act of the Canadian Parliament—

(i) The number of senators provided for under section twenty-one of the British North America Act, 1867, is increased from seventy-two to ninety-six:

(ii) The Divisions of Canada in relation to the constitution of the Senate provided for by section twenty-two of the said Act are increased from three to four, the Fourth Division to comprise the Western Provinces of Manitoba, British Columbia, Saskatchewan, and Alberta, which four Divisions shall (subject to the provisions of the said Act and of this Act) be equally represented in the Senate, as follows:—Ontario by twenty-four senators; Quebec by twenty-four senators; the Maritime Provinces and Prince Edward Island by twenty-four senators, ten thereof representing Nova Scotia, ten thereof representing New Brunswick, and four thereof representing Prince Edward Island; the Western Provinces by twenty-four senators, six thereof representing Manitoba, six thereof representing British Columbia, six thereof representing Saskatchewan, and six thereof representing Alberta:

(iii) The number of persons whom by section twenty-six of the said Act the Governor General of Canada may, upon the direction of His Majesty the King, add to the Senate is increased from three or six to four or eight, representing equally the four divisions of Canada:

(iv) In case of such addition being at any time made the Governor General of Canada shall not summon any person to the Senate except upon a further like direction by His Majesty the King on the like recommendation to represent one of the four Divisions until such Division is represented by twenty-four senators and no more:

(v) The number of senators shall not at any time exceed one hundred and four:

(vi) The representation in the Senate to which by section one hundred and forty-seven of the British North America Act, 1867, Newfoundland would be entitled in case of its admission to the Union is increased from four to six members, and in case of the admission of Newfoundland into the Union, notwithstanding anything in the said Act or in this Act, the normal number of senators shall be one hundred and two, and their maximum number one hundred and ten:

(vii) Nothing herein contained shall affect the powers of the Canadian Parliament under the British North America Act, 1886.

(2) Paragraphs (i) to (vi) inclusive of subsection (1) of this section shall not take affect before the termination of the now existing Canadian Parliament.

2. The British North America Act, 1867, is amended by adding thereto the following section immediately after section fifty-one of the said Act:—

"51A. Notwithstanding anything in this Act a province shall always be entitled to a number of members in the House of Commons not less than the number of senators representing such province.

3. This Act may be cited as the British North America Act, 1915, and the British North America Acts, 1867 to 1886, and this Act may be cited together as the British North America Acts, 1867 to 1915.

THE BRITISH NORTH AMERICA ACT, 1916
6-7 GEORGE V, CHAPTER 19

An Act to amend the British North America Act, 1867

[*1st June, 1916.*]

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. Notwithstanding anything in the British North America Act, 1867, or in any Act amending the same, or in any Order in Council, or terms or conditions of Union, made or approved under the said Act, or under any Act of the Canadian Parliament, the term of the Twelfth Parliament of Canada is hereby extended until the seventh day of October, nineteen hundred and seventeen.

2. This Act may be cited as the British North America Act, 1916, and the British North America Acts, 1867 to 1915, and this Act may be cited together as the British North America Acts, 1867 to 1916.

STATUTE OF WESTMINSTER, 1931
22 GEORGE V, CHAPTER 4

An Act to give effect to certain resolutions passed by Imperial Conferences held in the years 1926 and 1930.

[*11th December, 1931.*]

Whereas the delegates of His Majesty's Governments in the United Kingdom, the Dominion of Canada, the Commonwealth of Australia, the Dominion of New Zealand, the Union of South Africa, the Irish Free State and Newfoundland, at Imperial Conferences holden at Westminster in the years of our Lord nineteen hundred and twenty-six and nineteen hundred and thirty did concur in making the declarations and resolutions set forth in the Reports of the said Conferences:

And whereas it is meet and proper to set out by way of preamble to this Act that, inasmuch as the Crown is the symbol of the free association of the members of the British Commonwealth of Nations, and as they are united by a common allegiance to the Crown, it would be in accord with the established constitutional position of all the members of the Commonwealth in relation to one another that any alteration in the law touching the Succession to the Throne or the Royal Style and Titles shall hereafter require the assent as well of the Parliaments of all the Dominions as of the Parliament of the United Kingdom:

And whereas it is in accord with the established constitutional position that no law hereafter made by the Parliament of the United Kingdom shall extend to any of the said Dominions as part of the law of that Dominion otherwise than at the request and with the consent of that Dominion:

And whereas it is necessary for the ratifying, confirming and establishing of certain of the said declarations and resolutions of the said Conferences that a law be made and enacted in due form by authority of the Parliament of the United Kingdom:

And whereas the Dominion of Canada, the Commonwealth of Australia, the Dominion of New Zealand, the Union of South Africa, the Irish Free State and Newfoundland have severally requested and consented to the submission of a measure to the Parliament of the United Kingdom for making such provision with regard to the matters aforesaid as is hereafter in this Act contained:

Now, therefore, be it enacted by the King's most Excellent Majesty by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. In this Act the expression " Dominion " means any of the following Dominions, that is to say, the Dominion of Canada, the Commonwealth of Australia, the Dominion of New Zealand, the Union of South Africa, the Irish Free State and Newfoundland.

2. (1) The Colonial Laws Validity Act, 1865, shall not apply to any law made after the commencement of this Act by the Parliament of a Dominion.

(2) No law and no provision of any law made after the commencement of this Act by the Parliament of a Dominion shall be void or inoperative on the ground that it is repugnant to the law of England, or to the provisions of any existing or future Act of Parliament of the United Kingdom, or to any order, rule or regulation made under any such Act, and the Powers of the Parliament of a Dominion shall include the power to repeal or amend any such Act, order, rule or regulation in so far as the same is part of the law of the Dominion.

3. It is hereby declared and enacted that the Parliament of a Dominion has full power to make laws having extra-territorial operation.

4. No Act of Parliament of the United Kingdom passed after the commencement of this Act shall extend or be deemed to extend, to a Dominion as part of the law of that Dominion, unless it is expressly declared in that Act that that Dominion has requested, and consented to, the enactment thereof.

5. Without prejudice to the generality of the foregoing provisions of this Act, sections seven hundred and thirty-five and seven hundred and thirty-six of the Merchant Shipping Act, 1894, shall be construed as though reference therein to the Legislature of a British possession did not include reference to the Parliament of a Dominion.

6. Without prejudice to the generality of the foregoing provisions of this Act, section four of the Colonial Courts of Admiralty Act, 1890 (which requires certain laws to be reserved for the signification of His Majesty's pleasure or to contain a suspending clause), and so much of section seven of that Act as requires the approval of His Majesty in Council to any rules of Court for regulating the practice and procedure of a Colonial Court of Admiralty, shall cease to have effect in any Dominion as from the commencement of this Act.

7. (1) Nothing in this Act shall be deemed to apply to the repeal, amendment or alteration of the British North America Acts, 1867 to 1930, or any order, rule or regulation made thereunder.

(2) The provisions of section two of this Act shall extend to laws made by any of the Provinces of Canada and to the powers of the legislatures of such Provinces.

(3) The powers conferred by this Act upon the Parliament of Canada or upon the legislatures of the Provinces shall be restricted to the enactment of laws in relation to matters within the competence of the Parliament of Canada or of any of the legislatures of the Provinces respectively.

8. Nothing in this Act shall be deemed to confer any power to repeal or alter the Constitution or the Constitution Act of the Commonwealth of Australia or the Constitution Act of the Dominion of New Zealand otherwise than in accordance with the law existing before the commencement of this Act.

9. (1) Nothing in this Act shall be deemed to authorize the Parliament of the Commonwealth of Australia to make laws on any matter within the authority of the States of Australia, not being a matter within the authority of the Parliament or Government of the Commonwealth of Australia.

(2) Nothing in this Act shall be deemed to require the concurrence of the Parliament or Government of the Commonwealth of Australia, in any case where it would have been in United Kingdom with respect to any matter within the authority of the States of Australia, not being a matter within the authority of the Parliament or Government of the Commonwealth of Australia, in any case where it would have been in accordance with the constitutional practice existing before the commencement of this Act that the Parliament of the United Kingdom should make that law without such concurrence.

(3) In the application of this Act to the Commonwealth of Australia the request and consent referred to in section four shall mean the request and consent of the Parliament and Government of the Commonwealth.

10. (1) None of the following sections of this Act, that is to say, sections two, three, four, five and six, shall extend to a Dominion to which this section applies as part of the law of that Dominion unless that section is adopted by the Parliament of the Dominion, and any Act of that Parliament adopting any section of this Act may provide that the adoption shall have effect either from the commencement of this Act or from such later date as is specified in the adopting Act.

(2) The Parliament of any such Dominion as aforesaid may at any time revoke the adoption of any section referred to in subsection (1) of this section.

(3) The Dominions to which this section applies are the Commonwealth of Australia, the Dominion of New Zealand and Newfoundland.

11. Notwithstanding anything in the Interpretation Act, 1889, the expression " Colony " shall not, in any Act of the Parliament of the United Kingdom passed after the commencement of this Act, include a Dominion or any Province or State forming part of a Dominion.

12. This Act may be cited as the Statute of Westminster, 1931.

EXHIBITS AND HEARINGS

The following is a complete list of exhibits filed with the Commission. A *brief* is listed by the name of the government, public body or private association which presented it. A *memo.* indicates memorandum prepared by the official or department named, at the request of the Commission on the question of overlapping services. Other material filed is listed by title, with the name in brackets of the government, public body or association filing the item. Several briefs were supported in writing by organizations other than those who presented the brief in question. In such instances the names of supporting organizations are listed. Many letters supporting or criticizing briefs or making suggestions to the Commission were also received from private individuals, but in view of the Commission's ruling to hear only governments or formally organized associations, the names of such individuals are not given. The Commission wishes, however, to thank all private persons who thus assisted it.

WINNIPEG, November 29, 1937-December 8, 1937
(Ev. pp. 1-1181)

1. Government of the Province of Manitoba, Part I. (*See also* Exs. 421 to 427.)
2. Government of the Province of Manitoba, Part II.
3. Government of the Province of Manitoba, Part III.
4. Government of the Province of Manitoba, Part IV.
5. Government of the Province of Manitoba, Part V.
6. Government of the Province of Manitoba, Part VI.
7. Government of the Province of Manitoba, Part VII.
8. Government of the Province of Manitoba, Part VIII.
9. Winnipeg Real Estate Board.
10. Government of the Province of Manitoba, Part IX.
11. Memo. Workmen's Compensation and Old Age Pensions Boards, Manitoba.
12. Memo. Department of Agriculture and Immigration, Manitoba.
13. Memo. Department of Health and Public Welfare, Manitoba.
14. Memo. *re* administration of the Companies Act, Manitoba.
15. Memo. Department of Mines and Natural Resources, Manitoba.
16. Memo. Department of Public Works and Labour, Manitoba.
17. Winnipeg Board of Trade.
18. The Union of Manitoba Municipalities.
19. The City of Winnipeg.
20. Annual Report for 1936 (Winnipeg).
21. Rural Municipality of St. James, Manitoba.
22. Rural Municipality of East Kildonan, Manitoba.
23. Rural Municipality of West Kildonan, Manitoba.
24. School District of Winnipeg, No. 1.
25. Manitoba School Trustees' Association.
26. Manitoba Teachers' Federation.
27. Board of Governors of the University of Manitoba.
28. The Greater Winnipeg Youth Council.
29. The Catholic Minority of Manitoba.
30. The Sound Money Economic System Association.
31. The Home and Property Owners Association of Winnipeg.
32. Statement of the Hon. John Bracken as to Union of the three Prairie Provinces.
33. The Native Sons of Canada.

REGINA, December 9, 1937-December 17, 1937
(Ev. pp. 1182-2305)

34. Government of the Province of Saskatchewan. (*See* Ex. 57).
35. Statement of Treasury Bills, April 30, 1937. [Saskatchewan].
36. Auditor's statement showing Relief Expenditures and Repayments in Saskatchewan from 1929 to 1937. [Saskatchewan].
37. Report of Commission of Inquiry into Provincial and Municipal Taxation to Government of Saskatchewan *(Jacoby Commission)* (1936). [Saskatchewan].
38. Bank of Canada Report, 1937. [Saskatchewan].
39. Report of Saskatchewan Public Service Commissioner on Inspectoral Services. [Saskatchewan].
40. Comparative Statement of Administration Costs in Saskatchewan. [Saskatchewan].
41. Map of Saskatchewan showing drought areas (in colour). [Saskatchewan].
42. Table showing Relief Aid in Cities of Saskatchewan. [Saskatchewan].
43. Table showing number of Cities, Towns and Villages in Saskatchewan receiving relief. [Saskatchewan].
44. Estimate of Relief Costs within Drought Area of Saskatchewan. [Saskatchewan].
45. Table of Estimated Relief Costs Outside Drought Area in Saskatchewan. [Saskatchewan].
46. Map showing average wheat yields in Saskatchewan in 1937. [Saskatchewan].
47. Report of the Local Government Board respecting the City of Moose Jaw, May 14, 1937. [Saskatchewan].
48. Map showing Saskatchewan Relief Areas. [Saskatchewan].
49. Saskatchewan Urban Municipalities Association.
50. City of Moose Jaw.
51. Bundle of twenty coloured maps showing average wheat yields in Saskatchewan, years 1918 to 1937. [Saskatchewan].
52. The Saskatchewan Association of Rural Municipalities.
53. Rural Municipality of Mantario, No. 262, Saskatchewan.
54. Chart showing Increase in Population in Saskatchewan, 1931 to 1936. [Saskatchewan].
55. Chart showing Decrease in Population in Saskatchewan, 1931 to 1936. [Saskatchewan].
56. Copies of maps referred to in evidence of Prof. J. Mitchell of University of Saskatchewan, and Soil Survey Report. [Saskatchewan].
57. Reconciliation of figures at pages 194 and 421 of brief of Government of Saskatchewan. [Saskatchewan].
58. Statement of Conditional Subsidies received by Saskatchewan from Dominion Government and Board of Railway Commissioners up to April 30, 1937. [Saskatchewan].
59. Statement as to Expenditures on Venereal Disease Service. [Saskatchewan].
60. Scheme for Wheat Yield Insurance with particular reference to Saskatchewan, by W. J. Hansen. [Saskatchewan].
61. Saskatchewan School Trustees' Association.
62. The Saskatchewan Teachers' Federation.
63. University of Saskatchewan.
64. Memo. Department of Education, Saskatchewan.
65. Memo. on National Health Insurance, Saskatchewan.
66. Regina Board of Trade.
67. Saskatoon Board of Trade.
68. Statement as to Certain Aspects of Land Economics in Canada, by William Allen. [Saskatchewan].
69. Explanatory statement on Rehabilitation by Hon. George Spence, Minister of Public Works, Saskatchewan.

70. "On-to-the Bay" Association of Canada.
71. Memo. Department of Agriculture, Saskatchewan.
72. Memo. Department of Natural Resources. Saskatchewan.
73. Memo. *re* Electric Power Resources. Saskatchewan.
74. Memo. Departments of Labour and Public Welfare, Saskatchewan.
75. Memo. *re* federal aid for highways. Saskatchewan.
76. Memo. *re* highways control, Saskatchewan.
77. Memo. *re* public health services, Saskatchewan.
78. Memo. Department of the Attorney-General, Saskatchewan.
79. Memo. Department of Insurance, Saskatchewan.
80. Memo. *re* jurisdiction in insurance matters, Saskatchewan.
81. Memo. *re* amalgamation of the three Western Universities. [Saskatchewan].
82. Memo. Saskatchewan Farm Loan Board. [Saskatchewan].
83. United Farmers of Canada, Saskatchewan Section.
84. Statement showing insurance business and statistics in Saskatchewan. [Saskatchewan].
85. Resolutions of The Pas Board of Trade. [Saskatchewan].
86. "The Canadian Constitution and Its Amendment", reprint of speech given by Attorney-General in Saskatchewan Legislature, 1936. [Saskatchewan].

OTTAWA, January 17, 1938-January 31, 1938
(Ev. pp. 2306-3851)

87 to 91. The Canadian Manufacturers' Association, Inc. Parts I to V. (*See also* Exs. 269 to 271.)

Concurred in by letter by the following:

Canadian Bottlers' Association Limited;
Canadian Construction Association;
Canadian Fisheries Association;
Canadian Jewellers' Association, Inc:;
Canadian Lumbermen's Association;
Canadian Paint Oil and Varnish Association;
Canadian Pharmaceutical Manufacturers' Association;
Canadian Pulp and Paper Association;
Confectionery, Chocolate and Cocoa Industries of Canada;
Furniture Manufacturers' Association;
Primary Textiles Institute;
Radio Manufacturers Association of Canada;
The Shoe Manufacturers' Association of Canada;
Tire Division of the Rubber Association of Canada.

92. The Canadian Life Insurance Officers' Association. (*See also* Ex. 411.)
93. Bundle of returns required to be filed by a typical manufacturer. [Canadian Manufacturers' Association].
94. All-Canada Insurance Federation.
95. Dominion Mortgage and Investments Association, Part I. (*See also* Ex. 272.)
96. Canadian Association of Social Workers.
97. The Canadian Teachers' Federation.
98. Ontario Association of Real Estate Boards.
99. League for Social Reconstruction.
100. The League of Nations Society in Canada.
101. The Canadian Association for Adult Education.
102. Survey of Adult Education in Canada. [Canadian Association for Adult Education].
103. Canadian Medical Association.
104. Canadian Hospital Council.
105. The Single Tax Association of Canada.

Concurred in by letter by the following:

The Henry George Club of Victoria.

106. Trades and Labor Congress of Canada.

Concurred in by letter by the following:

Dominion Joint Legislative Committee of the Railway Transportation Brotherhoods.

107. Chartered Banks of Canada.
108. The Investment Dealers' Association of Canada.
109. Canadian Electrical Association, Inc.
110. "Canadian Electric Stations in Canada". Report of Dominion Bureau of Statistics. [Canadian Electrical Association].
111. Constitution of Canadian Electrical Association, Inc.
112. List of Members of Canadian Electrical Association, Inc.
113. Canadian Federation of Mayors and Municipalities.
114. Addendum to Ex. 113.
115. "Our Cities". Report of Urbanism Committee to National Resources Committee of the United States, 1937. [Canadian Federation of Mayors and Municipalities].
116. Mouvement national-corporatiste.
117. The Canadian Tuberculosis Association.
118. Memo. Superintendent of Insurance. [Dominion].
119. Statistical statement of Revenue and Expenditure in Dominion Companies Branch. [Dominion].
120. Memo. Department of Fisheries, Dominion.
121 to 133. Various statistical tables and charts and other data *re* Income Tax. [Dominion].
134. File containing statistics of Sales and Excise Taxes and copies of relevant Statutes. [Dominion].
135. "Double Taxation and Tax Evasion". Report of League of Nations, Geneva, 1927. [Dominion].
136. List of Reciprocal Agreements for Relief from Double Income Tax on Shipping between Canada and other Countries. [Dominion].
137. Memo. Department of Health, Dominion.
137A. Summary of Functions of Dominion Department of Health.
138. Copy of Act respecting the Dominion Bureau of Statistics. [Dominion].
139. Memo. *re* Constitution and Administrative Machinery of the Dominion Bureau of Statistics. [Dominion].

HALIFAX, February 3, 1938-February 8, 1938
(Ev. pp. 3852-4320)

140. Government of the Province of Nova Scotia.
141. Appendices to Ex. 140.
142. Report of Royal Commission on Maritime Claims (1926). (*Duncan Commission*). [Nova Scotia].
143. Report of Royal Commission, Provincial Economic Inquiry, Nova Scotia, 1934. (*Jones Commission*). [Nova Scotia].
144. Brief of Province of Nova Scotia to Royal Commission, Provincial Economic Inquiry. [Nova Scotia].
145. Report of Royal Commission on Financial Arrangements between the Dominion and Maritime Provinces (1935). *(White Commission)*. [Nova Scotia].
146. Memo. Department of Mines, Nova Scotia.
147. Statement on Dominion Assistance to Nova Scotia for Technical Education. [Nova Scotia].
148. Chart showing services Nova Scotia Department of Health. [Nova Scotia].
149. Memo. Department of Agriculture, Nova Scotia.
150. Statement as to co-ordination of provincial and federal activities in Agriculture. [Nova Scotia].
151. Statistical Survey of Maritime Provinces, 1867-1934 by Dominion Bureau of Statistics. [Nova Scotia].
152. Appendices to Ex. 143.
153. "The Maritime Provinces Since Confederation". Report of Dominion Bureau of Statistics. [Nova Scotia].
154. The Union of Nova Scotia Municipalities.
155. Annual Report of Nova Scotia Department of Labour. [Union of Nova Scotia Municipalities].
156. "Unemployment and Relief in Nova Scotia", by L. Richter. [Union of Nova Scotia Municipalities].
157. "Public Affairs", December, 1937. [Union of Nova Scotia Municipalities].
158. City of Halifax.
159. Halifax Board of Trade.

CHARLOTTETOWN, February 10, 1938-February 12, 1938
(Ev. pp. 4321-4634)

160. Charlottetown Board of Trade.
161. Government of the Province of Prince Edward Island.
161A. Comparative statement of Prince Edward Island and Ontario Rates of Succession Duty. [Prince Edward Island].
161B. Statistical statement showing details of calculation for preparation of Ex. 161A.
162. Statement of Law Society of Prince Edward Island *re* Superior Courts in that Province. [Law Society]. (*See also* Ex. 278).

OTTAWA, February 15, 1938-February 16, 1938
(Ev. pp. 4635-4829)

163. Memo. Department of Labour, Dominion.
164. Copy of a relief agreement between the Dominion Government and the Province of Saskatchewan. [Dominion].
165. Schedules of Relief and Assistance in various Provinces, prepared by The Canadian Welfare Council. [Dominion].
166. Memo. Department of Trade and Commerce, Dominion.
167. Memo. Department of Agriculture, Dominion.
168. Memo. Experimental Farms Branch, Dominion.
169. Memo. Marketing Service, Dominion.
170. Memo. Production Services, Dominion.
171. Memo. as to Agricultural Science, Dominion.

VICTORIA, March 16, 1938-March 25, 1938
(Ev. pp. 4830-5944)

172. Government of the Province of British Columbia. (*See* Exs. 180 and 414 to 420).
173. British Columbia's Claim for Readjustment of Terms of Union, 1935. [British Columbia].
174. Report of Royal Commission on Reconveyance of Land to British Columbia, 1928 *(Martin Commission)*. [British Columbia].
175. Copy of letter, December 19, 1934, from the Rt. Hon. R. B. Bennett, Prime Minister, to the Hon. T. D. Pattullo, *re* interim payment of $750,000. [British Columbia].
176. "Economic Benefits to Canadians resulting from Operations of the Automotive Manufacturing Industries in Canada", by J. C. Armer. [British Columbia]
177. Table of Comparative Costs of Education between Municipal and Rural Territory in British Columbia. [British Columbia].
178. Table of per capita customs duties collections in certain Provinces. [British Columbia].
179. British Columbia's Claim for Readjustment of Terms of Union, 1934. [British Columbia].
180. Brief of Argument. [British Columbia]. (*See* Ex. 172).
181. Municipalities of British Columbia.
182. City of Vancouver.
183. British Columbia School Trustees' Association.
184. Report on School Finance in British Columbia, by H. B. King. [B.C. School Trustees' Association].
185. Memo. Department of Income Tax, British Columbia.
186-187. Tables showing Comparative Rates of Income Tax in Various Jurisdictions. [British Columbia].
188. Associated Boards of Trade of British Columbia. (*See* Exs. 275 and 276)
189. Associated Boards of Trade of Eastern British Columbia.
190. Memo. Department of Fisheries, British Columbia.
191. Memo. Health and Welfare Services, British Columbia.
191A. Statement as to Problem of Relief, Health and Welfare Services for Interprovincial Transients. [British Columbia].
192. Memo. Department of Labour, British Columbia.
193. Memo. Unemployment Relief Administrator, British Columbia.
194. Prince George Board of Trade.
Concurred in by letter by the following:
Associated Boards of Trade of Central British Columbia;
Merritt Branch Canadian Legion;
Newlands Community Hall Society;
Prince Rupert Chamber of Commerce;
St. Clair Stobart Chapter of the Imperial Order Daughters of the Empire;
Williams Lake Board of Trade.
195. File of correspondence and facts concerning Prince George. [Prince George Board of Trade].
196. Map showing agricultural opportunities in Central British Columbia. [Prince George Board of Trade].
197. Statement of H. G. Perry, M.L.A., on behalf of Prince George Board of Trade.
198. Statement as to employment provided by construction at Duncan, B.C. [Prince George Board of Trade].
199. Vancouver Real Estate Exchange.
200. Junior Board of Trade of Vancouver.
201. Copies of letters from Hon. T. D. Pattullo, Premier of British Columbia to Rt. Hon. R. B. Bennett, Prime Minister, Feb. 7, 1934; reply dated Feb. 26, 1934; letter from Hon. T. D. Pattullo to Rt. Hon. W. L. Mackenzie King, Prime Minister, Jan. 4, 1936,—*re* "Better Terms" and the P.G.E. Railway.
202. Victoria Chamber of Commerce.
Concurred in by letter by the following:
Victoria Real Estate Board.
203. Okanagan Municipal Association.
204. British Columbia Chamber of Agriculture.
205. Greater Vancouver and New Westminster Youth Council.
206. Provincial Council of Women, British Columbia.
207. Native Sons of British Columbia.
208. Catholic Minority of British Columbia.
209. Vancouver Young Liberal Association.
210. Co-operative Commonwealth Federation (B.C. Section).
211. British Columbia Library Association.
Concurred in by letter by the following:
Maritime Library Institute;
The Quebec Library Association.
212. Memo. Department of Agriculture, British Columbia.
213. Primary Products Publishing Company, Limited.
214. Canadian Association of Social Workers—B.C. Mainland Branch.
215. Corporation of the City of Revelstoke.
216. Memo. on Topographical Mapping, British Columbia.
217. Topographical Map of Nimpkish District. [British Columbia].
218. Map showing agricultural and grazing lands in British Columbia. [British Columbia].
219. Memo. Department of Mines, British Columbia.
220. Memo. Department of Trade and Industry, British Columbia.
221 Langley Farmers' Institute, District "E" of British Columbia.
222. Memo. Research Department of the Economic Council of British Columbia. [British Columbia].
223. Memo. on Distribution of Health Functions between the Dominion and the Provinces, [British Columbia].
224 Memo, *re* Company Law, [British Columbia].
225. Memo. Department of Insurance, British Columbia.
226. Memo. Department of Railways, British Columbia.
227. Two memoranda from Comptroller of Water Rights, British Columbia.
228. Statement of Revenue and Expenditure from Succession Duties. [British Columbia].
229-229A. Tables showing Dominion Subsidies as a Percentage of Ordinary Provincial Revenue of Provinces of Canada. [British Columbia].

230. Table showing Adjustment of Per Capita Grants on Basis of a Quinquennial Census Adjusted every Two-and-a-Half Years. [British Columbia].
231. Memo. on Research in the Social Services, [British Columbia].
232. Statements of cost of Social Services in British Columbia from 1876 to 1936. [British Columbia].
233. Tables showing Exports from British Columbia to the United Kingdom. [British Columbia].
234. Summary of British Columbia's Claims for Better Terms—1900-1927. [British Columbia].

EDMONTON, March 28, 1938-April 2, 1938
(Ev. pp. 5945-6627)

235. University of Alberta.
236. Edmonton Chamber of Commerce.
237. Copy of Resolution passed by the Legislative Assembly of Alberta, February 25, 1935.
238. Cities of Alberta.
239. Addenda to Ex. 238.
240. Exhibits "A" to "K" of Ex. 238.
241. Towns and Villages of Alberta.
242. The Alberta Association of Municipal Districts.
243. Alberta Youth Congress.
244. Alberta School Trustees' Association.
245. Alberta Teachers' Association.
246. College of Physicians and Surgeons of Alberta.
247. Protective Committee in Alberta of Private Holders of Alberta Savings Certificates and Bonds.
248. Taxpayers' Protective Association of Edmonton.
249. Calgary Board of Trade.
250. Young Men's Section, Calgary Board of Trade.
251. Association of Owners of Real Property, Calgary.
252. Canadian Chamber of Agriculture.
253. Committee of Calgary Builders and Suppliers.
Concurred in by letter by the following:
Calgary General Contractors' Association.
254. Calgary Unemployed Union.
255. The United Farmers of Alberta.
256. The Alberta Co-operative Council.
257. Council of the Alberta C.C.F. Clubs.
258. Western Canada Fuel Association.
Concurred in by letter by the following:
Council of the Calgary Board of Trade.
259. Drumheller Board of Trade.
260. Associated Temperance Forces of Alberta.
261. Medicine Hat Chamber of Commerce.
262. The Alberta Co-operative Sugar Beet Growers' Association.
263. Map showing crop failures in Alberta, 1918-1937. [Alberta Co-operative Sugar Beet Growers' Association].
264. Map showing existing and proposed irrigation districts in Southern Alberta. [Alberta Co-operative Sugar Beet Growers' Association].
265. Report of Royal Commission on the Natural Resources of Alberta, 1935. (*Dysart Commission*).
266. List of questions submitted to Alberta Government by Commission, and letter of Hon. W. Aberhart, Premier, dated March 30, 1938, to the Chairman.

OTTAWA, April 21, 1938-Dr. Ivor Jennings
(Ev. pp. 6629A-6716D)

TORONTO, April 25, 1938-May 9, 1938
(Ev. pp. 6628-8117)

267. Citizens' Research Institute of Canada.
267A. Statement synopsizing Ex. 267.
268. Board of Trade of the City of Toronto.
269 to 271. The Canadian Manufacturers' Association, Inc. Parts VI to VIII. (*See also* Exs. 87 to 91).
272. The Dominion Mortgage and Investments Association, Part II. (*See also* Ex. 95).
273. Appendix to Ex. 272.
274. The British-Israel-World Federation (Canada) Inc.
275. Copy of telegram, dated March 24, 1938, from Chairman of Commission to J. G. Robson, President B.C. Lumber and Shingle Manufacturers' Association, Vancouver. (*See* Exs. 188 and 276).
276. Letter dated April 14, 1938, from Vancouver Board of Trade to Chairman of Commission. (*See* Exs. 275 and 188).
277. Municipal District of Ray, No. 549, St. Albert, Alberta.
278. Memorandum from Prince Edward Island Law Society *re* number of cases in Court of Appeal in that Province. (*See also* Ex. 162).
279. Canadian Chain Store Association.
280. Canadian Importers' and Traders' Association, Inc.
281. Ontario Municipal Association.
282. National Construction Council.
283. Statement on Building Societies in Great Britain. [National Construction Council].
284. The City of Toronto and Ontario Mayors' Association.
285. Property Owners' Association of Toronto.
286. East York Business Men's Association.
287. County of York.
288. Home Builders' Association of Toronto.
289. Ontario School Trustees' and Ratepayers' Association.
290. The Mutual Fire Underwriters' Association of Ontario.
291. The Ontario Teachers' Council.
292. "Finance and Administration of Education in English-Speaking Countries". [Ontario Teachers' Council].
293. Ontario Branches of The Canadian Association of Social Workers.
294. Ontario Library Association.
295. Welfare Council of Toronto and District.
296. Government of the Province of Ontario—Part I.
297. Government of the Province of Ontario—Part II.
298. Government of the Province of Ontario—Part III.
299. Statistical statement of Old Age Pensions in Canada as at September 30, 1937. [Ontario].
300 to 302. Tables showing effect of Dominion and Provincial Priority in Income Taxes. [Ontario].
303. Example of taxes paid by an Ontario mining company to Ontario and Dominion Governments. [Ontario].
304. Statements of expenditure by Ontario for roads between 1930 and 1937. [Ontario]. (*See* Ex. 307).
305. Statement of reciprocal arrangements as to Succession Duties. [Ontario].
306. Copy of Act and Regulations respecting Old Age Pensions, Pensions for the Blind, and Mothers' Allowances. [Ontario].
307. Statement showing receipts on account of highways by Ontario from Dominion Government. [Ontario]. (*See* Ex. 304).
308. Annual Report of Municipal Statistics for 1936. [Ontario].
309. Tables showing particulars of Ontario Municipalities under supervision of Department of Municipal Affairs. [Ontario].
310. Letter, dated April 27, 1938, from Goodyear Tire & Rubber Co. of Canada, Ltd., to Ontario Budget Committee. [Ontario].
311. Letter, dated April 29, 1938, from Canadian General Electric Co. Ltd., to Ontario Budget Committee. [Ontario].
312. Letter, dated April 29, 1938, from Beatty Bros. Ltd., to Ontario Budget Committee. [Ontario].
313. Letter, dated May 3, 1938, from B. F. Goodrich Rubber Co. of Canada Ltd., to Ontario Budget Committee. [Ontario].
314. Table showing allocation of C.N.R. Deficits according to mileage, by provinces. [Ontario].
315. Memo. Department of Agriculture, Ontario.

316. Memo. Department of Labour, Ontario.
317. Memo. Department of Mines, Ontario.
318. Statement as to taxation of mining companies. [Ontario].
319. Memo. Department of Health, Ontario.
320. Additional memo. Department of Health, Ontario.
321. Memo. Department of Insurance, Ontario. (*See* Ex. 323)
322. Memo. on Supervision of Loan and Trust Companies, Ontario.
323. Memo. *re* jurisdiction in insurance, Ontario. (*See* Ex. 321).
324. Memo. Department of the Attorney-General, Ontario.
325. Memo. Department of Fisheries, Ontario.
326. Memo. of Ontario Fire Marshal.
327. Statement of Land available for Settlement. [Ontario].
328. Memo. Department of Lands and Forests, Ontario.
329. Letter dated April 30, 1938, from The Welfare Council of Toronto to the Chairman of the Commission.
330. Canadian Dental Association.
331. Canadian Nurses' Association.
332. "The Canadian Nurse", April, 1938. [Canadian Nurses' Association].
333. The National Council of Young Men's Christian Associations of Canada.
334. "Youth and Recreation in Toronto". [Y.M.C.A.].
335. "Youth's Eye View of Some Problems Connected with Getting Married". [Y.M.C.A.].
336. "Youth in the Next Decade". [Y.M.C.A.].
337. Annual Report (1937) National Council of Young Men's Christian Associations of Canada.
338. The League for Economic Democracy.

Concurred in by letter by the following:

Brotherhood of Railway Carmen of America.

339. Economic Reform Association.
340. The Housewives' Association of Canada.

QUEBEC, May 12, 1938-May 16, 1938
(Ev. pp. 8118-8492)

341A. Statement of Government of Province of Quebec—French text.
341B. Statement of Government of Province of Quebec—English text.
342. Montreal Board of Trade.
343. Chambre de Commerce du district de Montréal.
344. La Société Saint-Jean-Baptiste de Montréal.

Concurred in by letter by the following:

Association Canado-Américaine;
Association générale des étudiants de l'Université de Montréal;
Association des hôteliers de la campagne de la province de Québec;
Les Chevaliers de Carillon;
Les Patriotes de Rosemont;
Société Saint-Jean-Baptiste des Trois-Rivières;
L'Union des vétérans canadiens.

345. The League for Women's Rights.
346. La ligue des propriétaires de Montréal.
347. The Provincial Association of Protestant Teachers of Quebec.
348. Letter dated May 13, 1938, from La Fédération nationale Saint-Jean-Baptiste to the President of l'Alliance canadienne pour le vote des femmes de Québec.
349. L'Alliance canadienne pour le vote des femmes de Québec.
350. Montreal Branch of Canadian Association of Social Workers.
351. Comité permanent des Congrès de la langue française.
352. Les Acadiens et les Canadiens-français des provinces Maritimes.
353. Les Canadiens-français du Manitoba.
354. Les Canadiens-français de la Saskatchewan.
355. Les Canadiens-français de l'Alberta.
356. List of questions submitted to the Government of Quebec by the Commission. (*See* Ex. 391).

FREDERICTON, May 18, 1938-May 23, 1938
(Ev. pp. 8493-9106)

357. Government of the Province of New Brunswick. (*See* Ex. 413).
358. Table showing New Brunswick Public Debt. [New Brunswick].
359. Annual Report of Municipal Corporations of New Brunswick, 1936. [New Brunswick].
360. Memo. Department of Health, New Brunswick.
361. Annual Report of New Brunswick Department of Health, 1937. [New Brunswick].
362. Statement as to Freight Rates in New Brunswick. [New Brunswick].
363. Letter dated April 2, 1937, from New Brunswick Coal Producers' Association to New Brunswick Inspector of Mines. [New Brunswick].
364. Notes and figures as to presentation of argument affecting the coal mining industry. [New Brunswick].
365. Memo. Department of Insurance, New Brunswick.
366. Transportation Commission of the Maritime Board of Trade. (*See* Exs. 408, 409, 410).
367. City of Saint John.
368. Statement as to employment situation in the City and County of Saint John. [City of Saint John].
369. Saint John Board of Trade.
370. Map showing railway distances from certain points to Saint John and Halifax. [Saint John Board of Trade].
371. Statistical statement of Canadian National Railways Investments in United States Railway Lands. [New Brunswick].
372. Extract *re* canals from House of Commons Debates, March 28, 1938. [New Brunswick].
373. Dominion expenditures for canal construction. [New Brunswick].
374. Letter and tables showing trade through Maritime Ports. [New Brunswick].
375. Union of New Brunswick Municipalities.
376. Map of New Brunswick. [Union of N.B. Municipalities].
377. Municipality of Gloucester, N.B.
378. Municipality of Northumberland, N.B.
379. New Brunswick Teachers' Association.

OTTAWA, May 25, 1938-June 2, 1938
(Ev. pp. 9108-9154; 9505-9926)

380A. Summary of Ex. 380B.
380B. Canadian Welfare Council.
381. The National Council of Women of Canada.
382. Health League of Canada.
383. Board of Evangelism and Social Service of The United Church of Canada.
384. "Christianizing the Social Order". [The United Church of Canada].
385. Report of the Oxford Conference. [The United Church of Canada].
386. The Canadian Legion of The British Empire Service League.
387. Federation of Ontario Naturalists, Inc.

Concurred in by letter by the following:

Ontario Federation of Anglers.

388. Victorian Order of Nurses for Canada.
389. "The Victorian Order of Nurses for Canada" (pamphlet).
390. Copy of letter dated May 13, 1938, from Acting Chairman of Commission to Mr. L. E. Beaulieu, K.C., Counsel for Province of Quebec, *re* possibility of hearing evidence of Quebec Civil Servants.
391. Copy of letter dated May 13, 1938, from Acting Chairman to Mr. L. E. Beaulieu, K.C., submitting list of questions. (*See* Ex. 356).

392. Letter dated May 14, 1938, from Mr. L. E. Beaulieu, K.C., to Acting Chairman, stating Province of Quebec did not wish to go beyond previous statement. (*See* Ex. 341A).
393. Letter dated May 20, 1938, from Hon. M. Duplessis, Premier of Quebec, to Acting Chairman, and copy of letter dated May 25, 1938, from Acting Chairman to Premier Duplessis.
394. The Canadian Chamber of Commerce.
Concurred in by letter by the following:
Chamber of Commerce of the District of Levis.
395. Grand Orange Lodge of Ontario West.
396. Memo. Department of Mines and Resources, Dominion.
397. Memo. on Topographical Mapping in British Columbia. [Dominion].
398. Memo. of Superintendent of Bankruptcy, Dominion.
399. The Retail Merchants' Association of Canada, Inc.
400. The Roman Catholic Separate School Trustees' Association of Ontario.
401. Central Committee of the Communist Party.
402. Memo. National Research Council, Dominion.
403. Proceedings of Conference on Organization of Medical Research in Canada. [Dominion].
404. List of Fellowships, Studentships and Bursaries of National Research Council. [Dominion].
405. Memo. Department of Justice, Dominion.
406. Folder of Advertising Material of Canadian Travel Bureau. [Dominion].
407. Twentieth Annual Report of National Research Council, 1936-37. [Dominion].
408. Letter from Transportation Commission of Maritime Board of Trade to Commission with copies of correspondence filed before Royal Commission on Maritime Claims. (*See* Ex. 366).
409. Class Rate Adjustment of May 15, 1912, in Maritime Provinces. (*See* Ex. 366).
410. Schedule *re* Town Tariff Basis, 1926, as compared with 1907. (*See* Ex. 366).
411. Supplementary submission of Canadian Life Insurance Officers' Association. (*See* Ex. 92).
412. City of Hamilton.

OTTAWA, August 8, 1938-Prof. L. F. Giblin

OTTAWA, November 24, 1938-December 1, 1938
(Ev. pp. 10,078-10,702)

413. Supplementary brief of Government of Province of New Brunswick. (*See* Ex. 357).
414 to 420. Supplementary data submitted by Counsel for the Government of the Province of British Columbia. (*See* Exs. 172 and 180).
420A. Memo. *re* Old Age Pensions, [Prince Edward Island].
421. Supplementary Statement of Hon. John Bracken, Premier of Manitoba. (*See* Exs. 1 to 8 and 10).
422. Bundle of photostatic copies of advertisements during War Years *re* Wheat Production. [Manitoba].
423. Statement on Canadian Monetary Policy by Dr. A. H. Hansen. [Manitoba]. (*See* Ex. 426).
424. Statement of Manitoba's Argument with respect to the Dominion Tariff Policy by Jacob Viner. [Manitoba].
425. Statement of Calculation of Additional Items. [Manitoba].
426. Supplementary statement of Dr. A. H. Hansen. [Manitoba]. (*See* Ex. 423).
427. Statement of Recapitulation of Essentials of the Manitoba Case in Light of Criticism, Hon. S. S. Garson, Provincial Treasurer. [Manitoba]. (*See* Exs. 1-8 and 10).

LIST OF WITNESSES WHO GAVE EVIDENCE BEFORE THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

ADAMSON, C. A., Winnipeg Board of Trade.
ALEXANDER, G. J., Asst. to Commr. of Fisheries, B.C.
ALLAN, D. J., Asst. Dep. Min. of Mines and Resources, Man.
ALLEN, Prof. Wm., on behalf Govt. of Sask.
ANDERSON P. M., K.C., Dept. of Justice, Dom. Govt.
ARCHER, Dr. A. E., Council of College of Physicians and Surgeons of Alta.
ARCHIBALD, D. F., C.A., on behalf Govt. of P.E.I.
ARCHIBALD, Dr. E. S., Director of Experimental Farms, Dom. Govt.
ARCHIBALD, Miss Margaret, Alta. Youth Congress.
ASHTON, Major General E. C., Victorian Order of Nurses.
AULD, Dr. F. H., Dep. Min. of Agriculture, Sask.
BAGWELL, G. B., Counsel, Single Tax Ass'n.
BARBOUR, A. W., Dep. Min. of Public Works, N.B.
BARNETT, J. W., Alta. Teachers' Ass'n.
BARNSTEAD, Arthur, S., Dep. Prov. Sec'y., N.S.
BARTON, Dr. G. S. H., Dep. Min. of Agriculture, Dom. Govt.
BASTIEN, Hermas, La Société Saint-Jean-Baptiste de Montréal.
BATES, Dr. Gordon, Health League of Canada.
BEAULIEU, L. E., K.C., Counsel for Quebec Govt.
BELL, Adam, Dep. Min. of Labour, B.C.
BELL, D. W., Act. Dir., Bureau of the Budget, United States Govt. *(Private hearing.)*
BENTLEY, W. E., K.C., Sec., Law Society, P.E.I.
BEST, W. L., Canadian Trades and Labor Congress.
BETHUNE, C. P., Solicitor, City of Halifax.
BICKERTON, G. R., United Farmers of Canada, Sask. Section.
BIGGAR, W. H., Canadian Federation of Mayors and Municipalities.
BING, G. A., Provincial Audit Staff, Sask.
BISSETT, C. N., Charlottetown Board of Trade.
BLACK, W. D., Canadian Manufacturers' Ass'n, Inc.
BLACKSTOCK, G. M., K.C., Medicine Hat Chamber of Commerce.
BLOIS, E. H., Director of Welfare Work, N.S.
BOLTON, C. W., Chief of Statistical Branch, Dept. of Labour, Dom. Govt.
BONE, W. R., on behalf City of Vancouver.
BRACKEN, Hon. John, Premier of Manitoba.
BRANDLEY, Louis, Alta. Co-operative Sugar Beet Growers' Ass'n.
BRINE, A. G., Native Sons of B.C.
BRISTOL, Everett, K.C., Counsel, National Council of Women.
BRISTOL, J. R. K., Canadian Manufacturers' Ass'n, Inc.
BRITNELL, Prof. George, on behalf Govt. of Sask.
BRITTAIN, Dr. H., Citizens' Research Institute of Canada.
BROWN, G. H., Asst. Dep. Min. of Labour, Dom. Govt.
BROWNLEE, J. E., K.C., Counsel, Alta. Ass'n of Municipal Districts.
BRÜNING, Dr. Heinrich, Former Chancellor of Germany (Ev. pp. 3657-3775A).
BUCK, Tim, Central Committee of the Communist Party.
BUZZELL, L., Montreal Board of Trade.
BYERS, N. C., Chairman, Debt Adjustment Board, Sask.
BYRON, Lloyd, Accountant-Auditor, Municipal Branch, N.B.
CAIN, W. C., Dep. Min. of Lands & Forests, Ont.
CAMERON, Dr. Alan E., Dep. Min. of Public Works & Mines, N.S.
CAMPBELL, A. C., Assessor of Probates & Succession Duties, B.C.
CAMPBELL, E. S., Registrar of Motor Vehicles, N.S.
CAMPBELL, J. F., Solicitor, Municipality of East Kildonan, Man.
CAMPBELL, J. O. C., on behalf Govt. of P.E.I.
CAMPBELL, M. A., Ont. School Trustees & Ratepayers' Ass'n.
CAMPBELL, O. W., Supt. of Old Age Pensions, P.E.I.
CAMPBELL, Dr. Peter S., Chief Health Officer, N.S.
CAMPBELL, Hon. Thane A., K.C., Premier of Prince Edward Island.
CAMSELL, Dr. Chas., Dep. Min. of Mines & Resources, Dom. Govt.
CARPENTER, H. S., Dep. Min. of Highways, Sask.
CARROTHERS, Dr. W. A., on behalf Govt. of B.C.
CASGRAIN, Mme. Pierre F., The League for Women's Rights.
CASSIDY, Dr. H. M., Director of Social Welfare, B.C.
CLARK, C. B., Calgary Board of Trade.
CLARKE, G. B., Montreal Branch of Canadian Ass'n of Social Workers.
COATS, Dr. R. H., Dominion Statistician.
COBURN, J. G., Economic Reform Association.
COLEMAN, Dr. E. H., K.C., Under-Sec'y of State, Dom. Govt.
CONANT, Hon. Gordon D., K.C., Attorney-General, Ont.
CONLON, J. H., Director of Federal & Municipal Relations, N.B.

COOK, W. R., National Council of the Y.M.C.A.
COON, H. J., The Chartered Banks of Canada.
COTTON, R. L., Charlottetown Board of Trade.
COWAN, James, Greater Winnipeg Youth Council.
CREED, G. E., League for Economic Democracy.
CREIGHTON, Prof. D. G., Research staff of Royal Commission on Dominion-Provincial Relations.
CRONKITE, Prof. F. C., on behalf Govt. of Sask.
CROSS, Hon. Eric, Minister of Public Welfare and Municipal Affairs, Ont.
CROSS, W. K., Mutual Fire Underwriters' Ass'n of Ont.
CRYSLER, Mr., Toronto Board of Trade.
CURRAN, W. A., Associated Boards of Trade of Eastern B.C.
DALY, R. O., K.C., Solicitor, Investment Dealers' Ass'n of Canada.
DANSEREAU, Paul, La ligue des propriétaires de Montréal.
DAVIDSON, G. F., Canadian Ass'n of Social Workers, B.C. Mainland & Victoria Branches.
DAVIS, Hon. F. R., M.D., Minister of Health, N.S.
DAVIS, Hon. T. C., K.C., Attorney-General, Sask.
DAVISON, Mayor A., Cities of Alberta.
DAWSON, Walter, Relief Supervisor, Sask.
DAY, Mayor R., City of Toronto.
DEWAN, Hon. P. M., Minister of Agriculture, Ont.
DICKSON, W. M., Dep. Min. of Labour, Dom. Govt.
DOBSON, S. G., The Chartered Banks of Canada.
DOLAN, D. Leo, Chief of Canadian Travel Bureau, Dom. Govt.
DORRELL, Col. G. H., Vancouver Real Estate Exchange.
DRAPER, P. M., Trades and Labor Congress of Canada.
DYMOND, J. R., Federation of Ont. Naturalists.
DYSART, Hon. A. A., K.C., Premier of New Brunswick.
DYSART, Hon. A. K., Board of Governors, University of Manitoba.
EASTON, A. L., Mutual Fire Underwriters' Ass'n of Ont.
EDDY, A. M., Sask. Urban Municipalities Ass'n.
ELLIOTT, C. Fraser, K.C., Commr. of Income Tax, Dom. Govt.
ELLIOTT, Courtland, Investment Dealers Ass'n of Canada.
ELLISON, Mayor A. C., on behalf of Govt. of Sask.; Sask. Urban Municipalities Ass'n.
ESTEY, Hon. J. W., K.C., Minister of Education, Sask.
EVANS, Gladstone, Economic Reform Ass'n.
EVANS, J. H., Dep. Min. of Agriculture, Man.
EVANS, W. Benton, on behalf Govt. of N.B.
EVANS, W. Sanford, Winnipeg Real Estate Board.
FAIRCHILD, B. C., Canadian Electrical Ass'n, Inc.
FARNALLS, Paul, Alta. Ass'n of Municipal Districts.
FARRIS, Hon. J. W. deB., K.C., Counsel, Govt. of B.C.
FIELDING, P. S., Dep. Prov. Treas. & Sec'y, P.E.I.
FIELDING, R. M., Solicitor of N.S. Municipalities.
FINLAYSON, G. D., Supt. of Insurance, Dom. Govt.
FISHER, R. M., K.C., Municipal Commr. and Dep. Prov. Sec'y, Man.
FITZALLEN, J., Towns & Villages of Alta.
FORTIN, Jules, Dominion Mortgage and Investments Ass'n.
FOSTER, R. Leighton, K.C., Gen. Counsel, Canadian Life Insurance Officers' Ass'n.
FOSTER, W. W. B., Municipalities of Northumberland and Gloucester, N.B.
FOUND, Dr. W. A., Dep. Min. of Fisheries, Dom. Govt.
FOWKE, Prof. V. C., on behalf Govt. of Sask.
FOX, S. A., Towns & Villages of Alta.
FRASER, J. A., Investment Dealers' Ass'n of Canada.
FRY, Mayor J. W., Cities of Alta.
FUGLER, H., Home Builders' Ass'n of Toronto.
FULL, Lt.-Col. G. Elliott, Charlottetown Board of Trade.
GARDHOUSE, W. W., County of York, Ont.
GARDINER, Robt., United Farmers of Alta.
GARDOM, Basil, Primary Products Publishing Co., Ltd., B.C.
GARIEPY, C. E., Taxpayers' Protective Ass'n of Edmonton.
GARRETT, H. G., Supt. of Insurance and Registrar of Companies, B.C.
GARSON, Hon. S. S., K.C., Provincial Treasurer, Man.
GIBLIN, Prof. L. F., University of Melbourne, Australia, and formerly of Australian Grants Commission *(August 8, 1938)*.
GIBSON, R. A., Director of Lands, Parks & Forestry Branch, Dept. of Mines and Resources, Dom. Govt.
GOFORTH, W. W., National Construction Council.
GOLDMAN, Miss E., Montreal Branch, Canadian Ass'n of Social Workers.
GORDON, Mr., Toronto Board of Trade.
GRANT, G. A., B.C. School Trustees' Ass'n.
GRANT, Dr. H. C., on behalf Govt. of Man.
GREEN, F. G., Surveyor-General, B.C.
GRIFFIN, M. J., Counsel, Catholic Minority of B.C.
GRIFFITH, E. W., Administrator of Unemployment Relief, B.C.
GROSCH, S. P., K.C., Chairman, Local Govt. Board, Sask.
GUNN, Miss Jean I., Canadian Nurses' Ass'n.
HALLATT, H. H., League for Economic Democracy.
HAMILTON, F. Kent, Gen. Counsel, Ont. Ass'n of Real Estate Boards.
HANNA, W. E., Ont. Teachers' Council.
HANSEN, Dr. Alvin H., on behalf Govt. of Man.
HANSEN, W. J., on behalf Govt. of Sask.
HARRIS, Stuart, Sound Money Economic System Ass'n.
HART, Hon. John, Minister of Finance, B.C.
HASKINS, W. E., B.C. Chamber of Agriculture.

HAYDOCK, W. F., East York Business Men's Ass'n.
HAYES, J. B., Halifax Board of Trade.
HAZEN, D. King, K.C., Counsel, Municipalities of Northumberland and Gloucester, N.B.
HEPBURN, Hon. M. F., Premier of Ontario.
HEREFORD, Harry, Unemployment Relief Commr., Dept. of Labour, Dom. Govt.
HILL, J. R., Dep. Min. of Natural Resources, Sask.
HINGLEY, E. G., Sask. Ass'n of Rural Municipalities.
HONEYMAN, E. D., K.C., City of Winnipeg.
HOOPER, Ronald, Municipality of St. James, Man.
HOPE, Dr. G. J., Taxpayers' Protective Ass'n of Edmonton.
HORNBY, General, Prince George Board of Trade.
HOUGHAM, G. S., Retail Merchants Ass'n of Canada.
HOWARD, H. A., Ass'n of Owners of Real Property, Calgary.
HUBBARD, H., Victoria Chamber of Commerce.
HURST, George, Ont. Municipal Ass'n.
HYNDMAN, A. W., Charlottetown Board of Trade.
HYNDMAN, L. C., Council of Alberta C.C.F. Clubs.
IMRIE, John M., Edmonton Chamber of Commerce.
IRVINE, William, Council of Alberta C.C.F. Clubs.
JACKSON, Dr. F. W., Dep. Min. of Health & Public Welfare, Man.
JACOB, Robert, K.C., School District of Winnipeg No. 1.
JACOBS, L., F.C.A., Dept. of Municipal Affairs, Sask.
JELLETT, R. P., Canadian Chamber of Commerce.
JENNINGS, Dr. Ivor, University of London, England. (Ev. pp. 6629A-6716D.)
JOHNSTON, J. G., Canadian Chain Store Ass'n.
JOHNSTONE, Mayor H. S., Sask. Urban Municipalities Ass'n.
JONES, G., on behalf Govt. of N.B.
JONES, O. L., Okanagan Municipal Ass'n.
JONES, Hon. W. P., K.C., Counsel, Govt. of N.B.
JOPSON, John, Greater Vancouver and New Westminster Youth Council.
KEEPING, Dr. B. C., Dep Min. of Health, P.E.I.
KERR, Dr. W. A. R., University of Alberta.
KING, J. K., Dep. Min. of Agriculture, N.B.
KNOX, Prof. F. A., Research staff of the Royal Commission on Dominion-Provincial Relations.
LAIDLAW, J. B., Ont. Ass'n of Real Estate Boards.
LALONDE, H., La Société Saint-Jean-Baptiste de Montréal.
LANG, D. W., K.C., Counsel, Govt. of Ont.
LAPP, Dr. J. S., Canadian Dental Ass'n.
LAZERTE, Dr. M. E., Alberta Teachers' Ass'n.
LEDUC, Hon. Paul, Minister of Mines, Ont.
LEEMING, D., Victoria Chamber of Commerce.
LEONARD, T. D'Arcy, K.C., Gen. Counsel, Dominion Mortgage and Investments Ass'n.
LEPAGE, Hon. B. W., President of Executive Council and Administrator of Fisheries Relief, P.E.I.
LESLIE, Andrew, Saskatoon Board of Trade.
LEWIS, Mayor Stanley, Canadian Federation of Mayors and Municipalities.
LIPSETT, Miss Florence, Man. Teachers' Federation.
LIPSETT, L. R., Western Canada Fuel Ass'n.
LITHGOW, J. H., Dominion Mortgage and Investments Ass'n.
LITTLE, C. E., Sask. School Trustees' Ass'n.
LOBLEY, Owen, Montreal Board of Trade.
LOWER, Prof. A. R. M., Native Sons of Canada.
LUCAS, J. D., County of York, Ont.
LUCKOCK, Mrs. Rae, Housewives' Ass'n of Canada.
MACBRIDE, Hon. M. M., Minister of Labour, Ont.
MCCALLUM, J. S., Taxpayers' Protective Ass'n of Edmonton.
MCCORKINDALE, H. M., City of Vancouver.
MCCORMICK, R. N., Canadian Manufacturers' Ass'n, Inc.
MCDANIEL, B. J., K.C., Solicitor, Sask. Ass'n of Rural Municipalities.
MACDONALD, Hon. A. L., K.C., Premier of Nova Scotia.
MCDONALD, Hon. J. A., Minister of Agriculture, N.S.
MACDONALD, Hon. K.C., Minister of Agriculture, B.C.
MACDONNELL, H. W., Canadian Manufacturers' Ass'n, Inc.
MCEWEN, W. H., K.C., on behalf Govt. of Sask.
MCGAVAN, C. J., Water Rights Engineer, Sask.
MCGHIE, Dr. B. T., Dep. Min. of Health, Ont.
MACGIBBON, Dr. D. A., Commr., Board of Grain Commrs., Dom. Govt.
MCGILL, Dr. H. W., Director Indian Affairs, Dom. Govt.
MCGURRAN, J. J., Sask. Ass'n of Rural Municipalities.
MACKAY, J. R., Sask. Teachers' Federation.
MCKECHNIE, Dr. J. H., Dep Min. of Education, Sask.
MCKELVIE, B. A., Native Sons of B.C.
MCKENNA, J. D., Saint John Board of Trade.
MACKENZIE, Miss Catherine, Provincial Ass'n of Protestant Teachers of Quebec.
MACKENZIE, Prof. Norman, League of Nations Society; Canadian Ass'n for Adult Education.
MCKENZIE, W. C., Alta. Co-operative Council.
MACLAREN, Mayor D. L., City of Saint John, N.B.
MCLATCHY, E. B., Supt. of Insurance, N.B.
MACLEOD, Clive J., Solicitor, Union of Manitoba Municipalities.
MACMILLAN, H. R., Associated Boards of Trade of B.C.
MACMILLAN, L. B., Dep. Min. of Public Works, P.E.I.
MACMILLAN, M., Saskatoon Board of Trade.
MACMILLAN, Dr. W. J. P., Leader of Conservative Party, P.E.I.
MCNAIR, Hon. J. B., K.C., Attorney-General, N.B.
MCNAIRN, H. D., Supt. of Insurance, Ont.

MacNamara, A., Dep. Min. of Public Works and Labour, Man.
McNaughton, Major General A. G. L., President, National Research Council.
MacQuarrie, Hon. J. H., K.C., Attorney-General, N.S.
McQuesten, Hon. T. B., K.C., Minister of Highways, Ont.
McTaggart, D. E., K.C., Counsel, City of Vancouver.
Magill, Dr. Roswell, Under-Secretary of the United States Treasury. *(Private hearing.)*
Maines, Miss Joy, Canadian Ass'n of Social Workers.
Major, Hon. W. J., K.C., Attorney-General, Man.
Mann, J. A., K.C., Gen. Counsel, All-Canada Insurance Federation.
Manning, H. E., Property Owners' Ass'n of Toronto.
Marion, J. A., Man. School Trustees' Ass'n.
Marks, A. L., Associated Temperance Forces of Alta.
Markus, I., National Construction Council.
Marsh, L. C., League for Social Reconstruction.
Marshall, E. K., Man. Teachers' Federation.
Marshall, Col. K. R., Board of Trade, Toronto.
Massey, W. E., C.A., Provincial Auditor, P.E.I.
Mather, R. H., Canadian Electrical Ass'n, Inc.
Matheson, R. H., Transportation Commission, Maritime Board of Trade.
Middleboro, C. C., Ont. Municipal Ass'n.
Miller, O. V. B., N.B. Teachers' Ass'n.
Milliken, R. H., K.C., Canadian Chamber of Agriculture.
Mitchell, Prof. J., on behalf Govt. of Sask.
Mitchell, Mayor Walter, City of Halifax.
Molloy, T. M., Commr., Labour and Industries, Sask.
Monk, Miss Elizabeth C., The League for Women's Rights.
Montgomery, G. H., K.C., Counsel, Canadian Electrical Ass'n, Inc.
Mooney, G. S., Canadian Federation of Mayors and Municipalities.
Moore, Miss Edna, Canadian Nurses' Ass'n.
Morgan, H. W., Canadian Chamber of Commerce.
Morin, René, Chambre de Commerce du District de Montréal.
Moyer, F. C., Drumheller Board of Trade.
Munro, Dr. H. F., Supt. of Education, N.S.
Munro, J. B., Dep. Min. of Agriculture, B.C.
Murphy, A. H., K.C., Counsel, Roman Catholic Separate School Trustees' Ass'n of Ont.
Murray, Dr. W. C., on behalf Govt. of Sask.; University of Sask.
Mutch, R. E., Charlottetown Board of Trade.
Mutchmor, Rev. J. R., United Church of Canada.
Myrdall, Dr. Gunnar, Prof. of Political Economy, Stockholm University, Sweden. (Ev. pp. 9108-54.)
Newcombe, C. K., Chairman, Workmen's Compensation Board and Old Age Pensions Board, Man.
Norris, Miss Jessie, Canadian Teachers' Federation.
Noseworthy, J. W., Canadian Teachers' Federation; Ont. Teachers' Council.
O'Brien, J. D., K.C., Senior Solicitor, Succession Duty Branch, Ont.
Oldfield, H. C., B.C. Chamber of Agriculture.
O'Meara, W. P. J., K.C., Asst. Under-Sec'y of State, Dom. Govt.
Ottewell, A., Alta. School Trustees' Ass'n.
Owen, D. M., Vancouver Young Liberal Ass'n.
Parker, Mrs. Cameron, Ont. Branches of Canadian Ass'n of Social Workers.
Parker, Hon. R. J. M., Minister of Municipal Affairs, Sask.
Parmelee, Major J. G., Dep. Min. of Trade & Commerce, Dom. Govt.
Paterson, Hon. A. P., Minister of Education and Federal and Municipal Relations, N.B.
Patterson, Mayor A. M., Prince George Board of Trade.
Patterson, J. H. L., Single Tax Ass'n of Canada.
Patterson, Hon. W. J., Premier of Saskatchewan.
Pattullo, Hon. T. D., K.C., Premier of British Columbia.
Paul, E. B., Dep. Min. of Labour, N.S.
Peacock, Dr. F., Director of Educational Services, N.B.
Pearson, Hon. G. S., Minister of Labour, B.C.
Pepper, Frank, Edmonton Chamber of Commerce.
Peterson, C. B., Commr. of Income Tax, B.C.
Phillips, R. L., Fredericton Board of Trade.
Pinder, Mayor R. M., Sask. Urban Municipalities Ass'n.
Pitblado, Isaac, K.C., Counsel, Govt. of Man.
Porteous, J. V. R., Canadian Chamber of Commerce.
Preudhomme, J., K.C., City of Winnipeg.
Price, Col. C. B., Canadian Legion of the B.E.S.L.
Purvis, Arthur B., formerly Chairman, National Employment Commission. *(Private hearing.)*
Quigg, S., K.C., Dept. of Attorney-General, Sask.
Race, F. W., Taxpayers' Protective Ass'n of Edmonton.
Ralston, Mrs. F. G., Provincial Council of Women, B.C.
Ralston, Col. the Hon. J. L., K.C., Counsel, Canadian Electrical Ass'n, Inc.
Raynault, Mayor A., Canadian Federation of Mayors and Municipalities.
Reek, W. R., Dep. Min. of Agriculture, Ont.
Reilley, W. J., K.C., Supt. of Bankruptcy, Dom. Govt.
Rickaby, H. C., Provincial Geologist, Ont.
Ridington, John, B.C. Library Ass'n.
Rigg, R. A., Director of Employment Service, Dept. of Labour, Dom. Govt.
Rothwell, G. B., Director of Production Services, Dept. of Agriculture, Dom. Govt.
Routley, Dr. T. C., Canadian Medical Ass'n.

ROWEBOTTOM, E. G., Dep. Min. of Trade & Industry, B.C.
ROY, Mgr. Camille, Le Comité permanent des Congrès de la langue française.
RUSSELL, F. W., Catholic Minority of Man.
RUTHERFORD, F. H., Ont. School Trustees' and Ratepayers' Ass'n.
ST. JEAN, Mlle. Idola, L'Alliance canadienne pour le vote des femmes de Québec.
SANSOM, Dr. C., Alta. Teachers' Ass'n.
SAUNDERS, L. H., Grand Orange Lodge of Ont. West.
SAUVÉ, Emile, La ligue des propriétaires de Montréal.
SCANLON, Mayor P. E., Okanagan Municipal Ass'n, B.C.
SCLANDERS, F. Maclure, Transportation Commission, Maritime Board of Trade.
SCOTT, Prof. F. R., League for Social Reconstruction.
SEXTON, Dr. F. H., Director of Technical Education, N.S.
SHAW, A. M., Director of Marketing Service, Dom. Govt.
SHAW, W. R., Dep. Min. of Agriculture, P.E.I.
SHEPARD, C. D., Winnipeg Real Estate Board.
SIBBALD, A. S., K.C., Debt Adjustment Board, Sask.
SIM, David, Commr. of Excise, Dom. Govt.
SIMMS, L. W., Saint John Board of Trade.
SIMPSON, W. E., Alta. Co-operative Sugar Beet Growers' Ass'n.
SMELLIE, Miss Elizabeth, C.B.E., Victorian Order of Nurses.
SMITH, C. Rhodes, Native Sons of Canada.
SMITH, G. E., Canadian Importers & Traders Ass'n, Inc.
SMITH, J. J., Dep. Min. of Municipal Affairs, Sask.
SMITH, R. Rogers, National-Corporatist Movement.
SMITH, Sidney E., University of Manitoba.
SPENCE, Hon. George, Minister of Public Works, Sask.
SPERRY, A. H., Union of N.S. Municipalities.
SPRINGETT, Dr. E. J., British-Israel-World Federation (Canada) Inc.
STANTON, John, Greater Vancouver and New Westminster Youth Council.
STEPHEN, F. N., Provincial Ass'n of Protestant Teachers of Quebec.
STEWART, Bryce, Director of Research, Industrial Relations Counselors, Inc., New York City. *(Private hearing.)*
STIRRETT, J. T., Canadian Manufacturers' Ass'n, Inc.
STOCKDILL, C. E., Winnipeg Board of Trade.
SULLIVAN, H. J., K.C., Solicitor, Municipalities of B.C.
SWAINE, Dr. J. M., Director of Research, Dept. of Agriculture, Dom. Govt.
TAGGART, Hon. J. G., Minister of Agriculture, Sask.
TALLON, R. J., Trades & Labor Congress of Canada.
TAYLOR, Alton, on behalf Govt. of N.B.
TAYLOR, J. A., C.A., Supt. of Revenue, Sask.
TAYLOR, Prof. K. W., on behalf Govt. of Ont.
TENNANT, Nigel, Counsel, City of Saint John.
THOMAS, Miss, Ont. Teachers' Council.
THOMSON, Dr. J. S., on behalf Govt. of Sask.; University of Sask.
THORNE, A. O., Canadian Importers & Traders Ass'n, Inc.
THORNTON, L. A., Regina Board of Trade; Chairman, Sask. Power Commission.
THORNTON, W., Alberta Youth Congress.
THORVALDSON, G. S., Solicitor, Home & Property Owners Ass'n of Winnipeg.
TIGHE, R. D., K.C., Protective Committee in Alta. of Private Holders of Alta. Savings Certificates and Bonds.
TIMMINS, H. W., Counsel, Home Builders' Ass'n of Toronto.
TITUS, L. S., Sask. Teachers' Federation; Canadian Teachers' Federation.
TOLCHARD, F. D., Toronto Board of Trade.
TOWERS, Graham F., Governor, Bank of Canada.
UHRICH, Hon. J. M., M.D., Minister of Public Health, Sask.
UPGREN, Prof. A. R., on behalf Govt. of Man.
URWICK, Prof. E. J., Welfare Council of Toronto.
VINER, Dr. Jacob, on behalf Govt. of Man.
WALKER, Dr. J. F., Dep. Min. of Mines, B.C.
WALLACE, W. S., Ont. Library Ass'n.
WALSH, F. W., Director of Marketing, N.S.
WALSH, J. E., Canadian Manufacturers' Ass'n, Inc.
WALTERS, Chester, Dep. Prov. Treasurer, Ont.
WARDLE, J. M., Director, Surveys and Engineering Branch, Dept. of Mines and Resources, Dom. Govt.
WARREN, John, East York Business Men's Ass'n.
WARWICK, Dr. Wm., Chief Medical Officer, N.B.
WEIR, Hon. G. M., Minister of Education and Provincial Secretary, B.C.
WELLS, J. E., on behalf Govt. of P.E.I.
WEST, Gordon M., National Construction Council of Canada.
WHALEN, T. H., Union of N.B. Municipalities.
WHARRAD, W. H., East York Business Men's Ass'n.
WHERRETT, Dr. G. J., Canadian Tuberculosis Ass'n.
WHITMAN, A., Halifax Board of Trade.
WHITTON, Miss Charlotte, O.B.E., Canadian Welfare Council.
WILGRESS, L. D., Director of Commercial Intelligence Service, Dept. of Trade & Commerce, Dom. Govt.
WILSON, Hon. Cairine, Victorian Order of Nurses
WILSON, J. O., Prince George Board of Trade.
WILSON, Dr. W. A., College of Physicians and Surgeons of Alta.
WISMER, Hon. G. S., K.C., Attorney-General, B.C.
WODEHOUSE, Dr. R. E., Dep. Min. of Pensions and National Health, Dom. Govt.
WOOD, Col. S. T., Commr. R.C.M.P. *(Private hearing.)*
WRIGHT, C. H., Halifax Board of Trade.
WRIGHT, Mr., Toronto Board of Trade.
WYATT, Dr. F. A., University of Alberta.
YOUNG, Dr. G. S., Canadian Medical Ass'n.

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